Ontario

Deposit Insurance
Corporation of Ontario

Société ontarienne
d'assurance-dépôts

2011 Annual Report

PROTECTION, SECURITY, STABILITY

CONTENTS

Deposit Insurance Corporation of Ontario

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Web site: www.dico.com
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DICO's Publications Available on the Website

- Annual Report
- Audit Committee Handbook
- Capital Adequacy Guideline
- Commercial Lending Practices
  - Watch List Accounts
  - Credit Risk Ratings
  - Industry Codes and Concentration Risk
- Deposit Insurance Brochure and FAQ
- DICO By-law # 3
- DICO By-law # 5
  - Assessment Workbook for Management
  - Assessment Workbook for Board of Directors
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- DICO By-law # 6
  - Application Guide By-law #6, Impaired Loans
- DICO Info (newsletter)
- Director's Handbook
- ERM Guidance Note and Application Guide
- Examination Manual
- Guidance Note Investments
- Guidance Note Lending
- Guidance Note Liquidity
- Guidance Note Structural (Interest Rate) Risk
- Pre-Approved Advertising Messages
- Reference Manual (Sound Business and Financial Practices)
- Sector Outlook
- Sector Releases

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Ontario

Deposit Insurance Corporation of Ontario
Société ontarienne d'assurance-dépôts

Paul Mullins
Chair of the Board
Président du Conseil d'administration

March 21, 2012

The Honourable Dwight Duncan
Minister of Finance
Frost Building South, 7th floor
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

Dear Minister:

I have the honour to submit to you the Annual Report of the Deposit Insurance Corporation of Ontario for the year ended December 31, 2011, pursuant to Section 256 of the *Credit Unions and Caisses Populaires Act*, 1994.

Yours truly,

Mission

To protect depositors and contribute to the stability of the Ontario Credit Union and Caisse Populaire sector.

Vision

We will contribute to the soundness, stability and success of the Ontario Credit Union / Caisse Populaire sector by being an effective solvency regulator and deposit insurer.

Values

In fulfilling our mandate and pursuing our Vision and Mission we will live by the following values:

Excellence and Professionalism

- DICO will maintain a highly skilled and diverse workforce that promotes excellence and professionalism in how it conducts its affairs.

Respect and Fairness

- Employees will treat everyone with mutual respect and fairness.
- DICO will act and support employees in a fair and consistent manner.

Integrity and Trustworthiness

- Employees will adhere to the highest ethical standards in performing their duties and responsibilities including maintaining the confidentiality of sensitive information.

Communications and Teamwork

- Employees will maintain open communications and work cooperatively amongst themselves and with partners towards the achievement of DICO's mandate.

Financial Stewardship

- DICO will act as a responsible agency that continuously strives to be efficient and effective for the benefit of all stakeholders and will manage its operations effectively and in a cost-efficient manner.

DICO Staff

Don Anthony • Giovanna Arnold • Vineet Bapat • Adrienne Barber • Robin Bell • Robert Blair • Alla Brachman • Kelly Brunn • John Burgman • Janette Chan • Richard Dale • Sébastien Daniels • Tony D'Errico • Bob Edmison • Brigitte Elie • Bill Foster • Carmen Gheorghe • Louise Hamilton • Sharon Haslett • Guy Hubert • John Hutton • Entela Josifi • Yasmin Khoja • Steve Kokaliaris • Marg Madari • Mauri Marak • Jim Maxwell • Brian Mullan • Alana McLeary • Grace Medeiros • Niall O'Halloran • Danny Pianezza • Naile Piranaj • Andy Poprawa • Andy Rechtshaffen • Mercedes Ruano • Shivdeep Singh • Roman Sochaniwsky • James Stephenson • Suzanne Tucker • Nelson Verdecia • Grace Wen • Michael White • Richard White • Winnie Yu.

Corporate Governance

The Deposit Insurance Corporation of Ontario is an agency of the Province of Ontario established in 1977 and operates under the *Credit Unions and Caisses Populaires Act, 1994* (the "Act"). The Act sets out DICO's objects, powers and duties as well as general terms for deposit insurance and other governing parameters. DICO functions within the legal framework established by the Act, Management Board of Cabinet Directive on Agency Establishment and Accountability and other applicable directives and laws. The Corporation is ultimately accountable to the Legislature through the Minister of Finance for the conduct of its affairs.

The Act requires that the DICO Board of Directors "manage the affairs or supervise the management of the affairs of the Corporation…". The Board of Directors is composed of up to nine persons all of whom are appointed by the Lieutenant-Governor-in-Council to serve for various terms usually up to three years per term.

DICO follows a robust board appointment process to ensure that it recruits the best qualified people. The board's criteria for consideration of candidates for board membership include:

- experience in the financial services industry and in particular, financial cooperatives;
- understanding credit union/caisse populaire principles, sector structure and modus operandi;
- possessing board experience, director training or a background in business or academia;
- understanding business concepts, operations and financial reports;
- communicating effectively;
- thinking strategically; and
- making decisions using sound judgement.

The Corporation has established a skills profile in addition to a position description for directors. DICO has also established a gender, experience, skills and geographic representation profile for the board as a whole, to ensure that it maintains an appropriate balance of these attributes. All potential candidates for the board are screened and interviewed by a committee of the board prior to a recommendation being made for appointment to the Minister. DICO typically provides the Minister with more than one candidate. Once the Minister has selected a candidate, that recommendation is forwarded to the Public Appointments Secretariat and Cabinet for approval prior to appointment by the Lieutenant-Governor-in-Council.

DICO follows best practices in corporate governance including:

- a formal director orientation process;
- continuous individual director and board development;
- board succession planning;
- annual board and peer assessment and feedback;
- regular in-camera sessions; and
- an annual strategic planning session.

The board also establishes annual objectives for itself and measures its performance against those stated objectives. These include strategies for risk management and communication with stakeholders, executive management and management reporting and control.

DICO is a member and active participant in the Conference Board of Canada's Public Enterprise Governance Centre, the Institute of Corporate Directors and other organizations which provide governance advice. These affiliations provide the Corporation with an insight into best and emerging practices for achieving excellence in governance.

DICO's Board of Directors

DICO'S BOARD OF DIRECTORS *(from left to right)*: *Sitting:* Jane Davis, Paul Mullins, Monique Tremblay
Standing: Patrick Deutscher, Gail Di Cintio, Colin Litton, Carol Lemelin, Don Dalicandro, Raymond Boucher

Paul Mullins, B.A., LL.B, *Chair of the Board*

Paul Mullins is a lawyer who has had his own practice in Windsor and Essex County since 1971. He was a commissioner for the Federal Human Rights Tribunal. He served for 20 years as a Director and/or President of Windsor Homes Coalition which provides low income housing to needy families. For over 24 years Mr. Mullins served as a Director and/or Chair of the Board of United Communities Credit Union (formerly Woodslee Credit Union) which has 36,134 members and assets of $649 million. Mr. Mullins has also served on numerous community and church groups in his hometown of Woodslee, Ontario, over the years. He was appointed on June 17, 2004 and his term expires on March 8, 2013. He was appointed Chair of the Board effective May 4, 2011.

Raymond Boucher, B.A.

Raymond Boucher has been involved with the caisses populaires movement for over 30 years. He was General Manager of Caisse Populaire de Kapuskasing Limitée for 20 years. He was on the board of L'Alliance des caisses populaires de l'Ontario for more than 18 years as president, vice-president and member of the executive committee. Mr. Boucher has also been involved on various committees of DICO from the late 1980s to 2004. He has acquired extensive experience in governance and an understanding of the issues surrounding the credit union/caisse populaire network. He was also involved in other community organizations such as the Chair of the Board of the "Services de Counselling Hearst Kapuskasing Smooth Rock Falls Counselling Services", and Treasurer for the Army Cadet Corps of Kapuskasing. Mr. Boucher was appointed on August 12, 2009 and his term expires on August 11, 2012.

Don Dalicandro, P. Eng., MBA, C.Dir.

Don Dalicandro is President of ASI, a software company serving the mobile field workforce needs of Fortune 1000 North American clients. He has over twenty-five years experience working with large and medium sized companies in diverse business sectors including finance, manufacturing, consumer goods, oil and gas, field service, commercial office construction and leasing, retail and food service. In 2007, Mr. Dalicandro obtained his Chartered Director designation from The Directors College, Degroote School of Business. He currently holds Board positions with Joseph Brant Memorial Hospital, Governance Chair, KARDON, ASI, Burlington Hydro Inc. and HPOBI. Previous Board positions include FirstOntario Credit Union Governance Chair, Secretary and Vice Chairman; ASECO and Azertech.

Mr. Dalicandro was appointed on March 23, 2011 and his term expires on March 22, 2014.

Jane Davis, B. Sc. (Hon), MM, ICD.D

Jane Davis is an experienced risk management and change management professional, with an extensive background in wealth management, brokerage, mutual funds, investment counselling and private banking. She also has sales experience in the corporate and commercial banking sectors so she understands the business management challenges. Ms. Davis has worked internationally in both wealth management and corporate banking risk management roles. She sits as an independent director on four corporate and one not-for-profit boards since obtaining her ICD designation in early 2006. Ms. Davis is also a member of five Investment Review Committees in the fund sector. She is also a Corporate Director for Growthworks and Chair of the Harvest Fund IRC. Ms. Davis was appointed on August 12, 2008 and her term expires on June 22, 2014.

Gail Di Cintio

Gail Di Cintio is Vice-President Operations with Larus Technologies, an Ottawa-based software engineering company, specializing in sensor network solutions. Previous to this, Ms. Di Cintio was VP Human Resource Development at Fujitsu, with global responsibilities for Career Development, Retention and Succession Planning Programs. She was also involved as a Board Director with Alterna Savings and Alterna Bank from 2003-2008, and was the Chair of the Human Resources Committee. Ms. Di Cintio has been a member of the Board of Trustees with The Ottawa Hospital from 1995-2001. Ms. Di Cintio was appointed on May 4, 2011 and her term expires on May 4, 2014.

Carol Lemelin, CMA

Carol Lemelin was Chief Financial Officer for The St. Lawrence Seaway Management Corporation with overall responsibilities including Finance, Information Technology and Telecommunications, Internal Audit, and Revenue and Forecasting. Mr. Lemelin was Chair of Caisse Populaire de Cornwall Inc., and also served in various capacities on the board of Caisse Populaire de Cornwall for several years. Carol enhanced his board governance expertise by completing Module 1 & 2 of the Directors College Audit Committee Program in the fall of 2011. Mr. Lemelin was appointed on June 20, 2007 and his term expires on June 22, 2014.

Colin Litton, FCA, ICD.D, *Vice-Chair*

Colin Litton is a Fellow of the Institute of Chartered Accountants of Ontario and a Certified Director. He is a retired partner of KPMG and his career with the firm has included service in its South African, Australian and Canadian practices. During his career with KPMG he was primarily engaged in providing audit and advisory services to banks, pension and investment funds and other entities comprising the financial services industry. He was the Chair of the Deposit-taking Institutions Auditors Advisory Committee to the Superintendent of Financial Institutions Canada until his retirement from public practice in Canada. Currently, he also serves on the boards of the Pacific and Western Group of Companies and the Canadian Scholarship Trust Foundation. Mr. Litton was appointed on August 12, 2008 and his term expires on June 22, 2014.

Monique Tremblay, FCIA, FSA, MBA

Ms. Tremblay is a pension actuary with in depth knowledge of the insurance industry, particularly the savings and retirement lines of business. Her broad experience in senior management includes accountability, strategic planning, communication, sound reporting and governance. Her business and actuarial skills cover the measurement and assessment of risk and its management implications. Ms. Tremblay was appointed on April 18, 2011 and her term expires on April 18, 2014.

Patrick Deutscher, *Observer,* ***Ministry of Finance***

Patrick Deutscher is Chief Economist for Ontario and Assistant Deputy Minister of the Office of Economic Policy (OEP) in the Ministry of Finance. He was appointed to that post in 2006. Prior to that, he was Director of the Macroeconomic Analysis and Policy Branch of the OEP. Pat first joined the Ontario Treasury in 1981. He worked in the Office of Economic Policy until 1987 when he left to work on fiscal and economic policy with the Federal Department of Finance, subsequently returning to the Ontario Public Service (OPS). Earlier in his career he worked with Environment Canada and Imperial Oil. Pat was raised in Saskatchewan. He holds a Ph.D. in Economics from the University of Toronto.

Sub-Committees of the Board (as at December 31, 2011)

Audit & Finance Committee

This committee assists the Board of Directors by considering and making recommendations on audit and finance matters and other related issues including the review of financial statements and audited financial statements. The committee also oversees the external and internal audit processes, reviews the Corporation's Annual Report and makes recommendations to the Board for the approval of the Corporation's business plan and budget. The committee also reviews the Corporation's investment policy and strategy as well as various risk management strategies related to the committee's area of responsibility.

- Colin Litton, *Chair*
- Carol Lemelin
- Monique Tremblay
- Paul Mullins, *ex-officio*

Governance & Human Resources Committee

The Governance and Human Resources Committee assists the Board of Directors by considering and making recommendations on governance and human resources matters. This committee reviews the structure of board committees, its composition and skills profiles of the board members and the human resource policies which impact the corporate governance of the Corporation. It also reviews the Corporation's succession planning related to senior personnel, the Corporation's compensation policies and pension plan as well as overseeing the Corporation's stakeholder relationship and communication strategies.

- Raymond Boucher, *Chair*
- Gail Di Cintio
- Paul Mullins, *ex-officio*

Risk Oversight Committee

The Risk Oversight Committee assists the Board of Directors by considering and making recommendations on, and by carrying out, functions and duties in relation to deposit insurance and regulatory matters. This committee monitors risk policies and reviews and authorizes the exercise of powers of the Corporation. It also monitors the deposit insurance reserve fund and model assumptions as well as monitoring legal actions and approving financial assistance requests from insured institutions.

- Jane Davis, *Chair*
- Don Dalicandro
- Paul Mullins, *ex-officio*

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS 2011

	DICO Board	Audit & Finance Committee	Governance & Human Resources Committee	Risk Oversight Committee
Number of meetings held	6	5	4	4
Total # of members	7-9	3-4	3	3
Total scheduled attendance	49	16	12	12
Total actual attendance	47	15	12	12
% of Attendance	96%	94%	100%	100%

Ombudsman's Report

The Office of the Ombudsman for the Deposit Insurance Corporation of Ontario (DICO) has a mandate to review complaints that have not been resolved at the operational level of DICO and to reach conclusions based on an independent review of the facts. Complaints must relate to regulatory issues between insured institutions and DICO or to disputes between depositors or borrowers related to institutions that are being liquidated. In the course of investigating complaints, the Ombudsman may make non-binding recommendations to DICO where deemed appropriate. The Ombudsman reports directly to the Board and is independent from operational programs.

Beryl Roberto
Ombudsman

"The Ombudsman reports directly to the Board and is independent from operational programs."

DICO's web site includes information regarding the complaint resolution process, complaint forms, contact information and circumstances under which the Ombudsman has no jurisdiction, such as matters involving a Tribunal hearing; an order for administration or liquidation; and litigation.

During 2011, there were five complaints received:

- Three complaints were not directly related to the activities of DICO. The individuals involved were provided guidance for moving forward with their complaints.
- A complaint from an insured institution was resolved by management of DICO; and
- A complaint from a member of a liquidated insured institution was resolved with assistance from this Office.

Full co-operation and support was received from the board, management and staff at DICO throughout the year.

Respectfully submitted,

Beryl Roberto, Ombudsman
Tel: 416-325-9446
Email: ombudsman@dico.com

Message from the Chair:

Helping Build a Sustainable Sector

On behalf of the Board of Directors, I am pleased to present our annual report to the government and our other stakeholders. The Deposit Insurance Corporation of Ontario, an operational enterprise agency of the Ontario government, exists to protect depositors from loss of deposit funds placed with Ontario's credit unions and caisses populaires and to provide prudential oversight and solvency regulation for the sector. I am pleased to report that DICO has again met our primary mandate during the past year. No depositor has ever lost any deposit funds placed with an Ontario credit union or caisse populaire.

Paul Mullins
Chair of the Board of Directors

The Year in Review

Despite the continuing uncertain economic climate over the past year, confidence in Ontario's credit unions and caisses populaires has remained steadfast. During 2011 the sector recorded solid deposit and loan growth as well as improving overall profitability. DICO plays an important role in promoting confidence in and the stability of credit unions and caisses populaires by ensuring adherence to high standards of governance, capital levels and risk management.

DICO's deposit insurance reserve fund (the "fund") continues to grow. At the end of the year the fund stood at $113.2 million (51 basis points of insured deposits). While still well below our target range of between 56 and 68 basis points, the fund increased substantially from the prior year. DICO has put in place a strategy to rebuild the fund through a combination of recoveries on past insurance losses, increased revenues and additional preventive measures to reduce the likelihood of future claims against our fund.

"DICO has put in place a strategy to rebuild the fund through a combination of recoveries on past insurance losses, increased revenues and additional preventive measures to reduce the likelihood of future claims against our fund."

During the year, DICO enhanced its prudential oversight processes aimed at improving the regulatory regime (e.g., enhanced examination capacity) for Ontario credit unions and caisses populaires. We remain confident that these policies, processes and service standards have strengthened the protection of depositors while permitting credit unions and caisses populaires to take advantage of expanded business powers to better serve members.

As the financial services marketplace and the economic environment evolve, financial institutions are realizing that their business models will need to adapt in order to stay competitive and relevant to their clients. In order to remain viable and sustainable, Ontario credit unions and caisses populaires will need to embrace these marketplace changes through the development

and implementation of disciplined and rigorous risk based strategic and operational plans. Through our oversight processes, we will continue to monitor their progress.

Governance and Oversight

The Board of Directors strives to be a model board for all of its insured institutions. The Board's activities focus on important aspects of governance and oversight such as strategy, succession planning, risk management and reporting. Through a strong Committee structure, the Board also focuses on important strategic issues related to both DICO and insured institutions. The Board continues to follow best practices in governance as set out in current literature on the subject including the Conference Board of Canada's and the Institute of Corporate Directors' publications. Details of our governance practices can be found in this annual report.

During 2011, our outreach programs to key stakeholders have included presentations to boards of individual institutions, consultations with credit union leaders, industry conferences, webinars on specific topics of interest and the publication of guides and other helpful materials. The Board also hosted special events in order to interact with credit union boards and management. The Board remains committed to ensuring that all key stakeholders are well informed about their responsibilities and the regulatory activities of DICO.

Looking Forward

For 2012, DICO has identified a number of key priorities:

- Implementing revised standards of sound business and financial practices including minimum standards for director competencies and enterprise risk management (ERM);
- Enhancing our proactive risk assessment and oversight capabilities;
- Publishing guidance with respect to emerging risks and regulatory expectations;
- Building a sustainable DIRF through recoveries on past claims and minimizing future claims;
- Reviewing and making recommendations on the differential premium system; and
- Continue implementing our strategic alliance agreements with our various stakeholders.

We believe that our long-term strategic direction properly responds to our mandate to enhance depositor confidence with due regard to the sector's goal to be more competitive and responsive to its members' needs. By exercising continued vigilance through our risk assessment and management programs, by building a solid insurance fund and encouraging a strong financial base at insured institutions, DICO believes that we will continue to protect depositors effectively, minimize the cost of depositor protection, and contribute to the stability and reputation of Ontario's credit unions and caisses populaires. We look forward to working with our various stakeholders to achieve these goals.

Board Transition

I would like to take this opportunity to express my appreciation to all our Board members for their dedication and professionalism in working together in the interests of all stakeholders. All of our directors bring a high level of skill, expertise and experience to DICO's mandate and deliberations.

During the past year, Laura Talbot of Kingston and Leslie Thompson of Toronto retired from the Board after having served for nine and six years respectively. On behalf of the Board and staff I would like to thank both Laura and Leslie for their valuable contributions and dedication to DICO. In 2011 we welcomed Don Dalicandro of Burlington, Gail Di Cintio of Ottawa and Monique Tremblay of Cambridge to the Board. They all bring a significant amount of enthusiasm and experience to our deliberations. We look forward to their contributions.

I would like to express my sincere appreciation for the support of the directors and DICO staff, as well as the many stakeholders that we have worked with over the past year.

On behalf of the Board of Directors,

Paul Mullins
Chair of the Board

Message from the CEO: Moving Forward

Andrew (Andy) Poprawa
President & CEO

The Ontario Legislature created the Deposit Insurance Corporation of Ontario in 1977 to ensure public confidence in Ontario credit unions and caisses populaires. DICO insures deposits at the province's 152 credit unions and caisses populaires and it promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. Since 2009 DICO's mandate also includes responsibility for prudential oversight and solvency regulation. DICO receives no tax dollars as insured financial institutions fund its insurance fund and operations.

The prolonged low interest rate environment and increased loan delinquency continue to pose challenges to maintaining healthy financial margins. Ontario credit unions and caisses populaires have responded to these challenges by reducing operating costs and increasing revenues in order to improve overall profitability. This resulted in an increase in the sector's aggregate return on average assets to 51 basis points in 2011 compared to 48 basis points in 2010. At the same time, overall capital levels remained at a historically high level of 7.2% on a leverage basis providing an important stabilizing element for insured institutions. Sector liquidity has remained within an acceptable range at 13.7%.

"Ontario credit unions and caisses populaires will continue to strengthen and contribute to the financial and social fabric of Ontario."

2011 Consolidation and Failures

During 2011 the rate of consolidation within the sector continued at a moderate rate. Of the 15 institutions that ceased operations during the year 9 merged with another institution, 5 were placed into liquidation and one was placed into bankruptcy. Each of these situations was unique and some required creative solutions to ensure the safety of deposits. In all cases, DICO ensured that all depositors were protected from any loss of their deposit funds and public confidence in the sector was maintained.

During 2011, DICO recorded an increase in provisions for insurance losses of $4.4 million relating to the liquidation of three institutions. The provisions for losses are the expected shortfall on the realization of assets of these institutions after satisfying all creditor claims. During 2011, we realized on recoveries of past losses of $4.5 million. We continue to pursue recoveries on other past losses.

Deposit Insurance Reserve Fund and Premiums

Under the Act DICO is required to build a Deposit Insurance Reserve Fund (fund) to protect depositors. As a result of significant losses incurred in 2008 and 2009, the progress DICO was making toward reaching its fund target to protect member deposits experienced a serious set-back. Despite very positive results during 2011, the fund stood at 51 basis points of insured deposits - well short of our target range of between 56 and 68 basis points based upon our actuarial model. To address this shortfall and after exploring various options to rebuild the fund, DICO recommended to the government an increase in premiums for 2011. This resulted in a modest increase in our premium revenues for 2011. Failure to achieve significant recoveries on past losses in the future may require a further increase in premiums.

OUR STRATEGIES

Proactive and Balanced Risk-Based Regulation and Risk Management

As the prudential regulator as well as the deposit insurer, the Corporation has the authority to respond to imprudent institutional and systemic risks and to ensure that prompt corrective action is taken as necessary. During the year DICO took appropriate measures to monitor and address any non-compliance with the Act and regulations. As a result, several supervisory orders were issued during the year to promptly address non-compliance situations. Over the past year we have also recruited a number of new staff to the organization to address the need for succession planning. Each of these individuals brings a unique set of skills and energy to DICO and we look forward to their contributions.

In 2011, DICO finalized its revised By-laws #5 and #6 dealing with standards of sound business and financial practices and the requirements for loan allowances respectively. These revised by-laws have enhanced the risk management requirements of insured institutions. In particular, the requirement for an effective internal audit program and an Enterprise Risk Management framework will further improve the ability of insured institutions to manage their risks. We also drafted and issued for comment a proposal to require directors of credit unions and caisses populaires to attain a certain level of competencies through a combination of experience and training. These new requirements will come into force on July 1, 2012 and will further enhance the governance of insured institutions.

Sound Corporate Governance

The Corporation prides itself on ensuring that we operate within the highest standards of competence, professionalism and integrity. To this end, our governance and management processes ensure that DICO is accountable, transparent and fair in all of its dealings with its insured institutions as well as the public.

Effective Public and Stakeholder Awareness

Providing clear, concise information regarding deposit insurance coverage and other regulatory matters are key elements of DICO's ongoing efforts to ensure sustained public confidence in credit unions and caisses populaires is maintained. Our point of sale brochures and our comprehensive website are the primary tools to provide access to that information. During 2011, we answered in excess of 500 calls from the public on our deposit insurance information line. For further information on our programs and to obtain further information about us, we invite stakeholders and readers to visit our website at www.dico.com.

Strong Partnerships

To ensure that we work together effectively with all stakeholders, DICO maintains memoranda of understanding with the Minister of Finance, the Superintendent of the Financial Services Commission of Ontario (FSCO), Central 1 Credit Union, La Fédération des caisses populaires de l'Ontario, L'Alliance des caisses populaires de l'Ontario, FINTRAC and the Superintendent of the Financial Institutions Commission of British

Columbia. In addition, we have several advisory committees comprised of key senior executives within the regulated sector, as well as Ministry of Finance and FSCO officials.

In the spirit of the co-operative movement we are also pleased to assist other jurisdictions around the world in developing sound regulatory and depositor protection regimes for co-operative financial institutions. We continue to chair the International Credit Union Regulators Network (ICURN) – a network of global credit union and caisse populaire regulators formed for the purpose of sharing information and experiences.

Looking Ahead

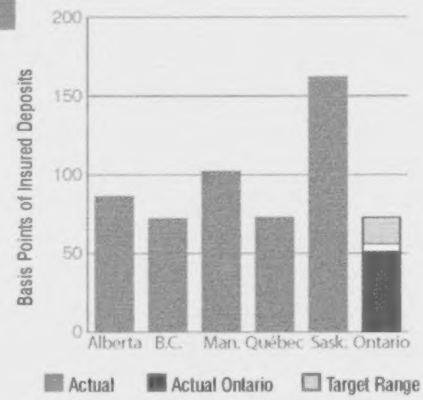
Ontario credit unions and caisses populaires will continue to strengthen and contribute to the financial and social fabric of Ontario. We also expect that the sector will follow its past trend of consolidation and restructuring in order to improve efficiencies, profitability and service. The Board and staff of DICO are committed to providing protection, security and stability to the Ontario credit union and caisse populaire sector for the benefit of all its members and the Ontario economy. We look forward to the opportunity in 2012 and beyond of continuing to demonstrate our commitment.

In closing, I would like to express my appreciation to our employees, who are an extremely dedicated group of professionals and the major source of DICO's corporate strength. I appreciate, as well, the advice and support that I continue to receive from DICO's Board of Directors. In particular, I am grateful to our Board Chair, Paul Mullins, for his ongoing wise counsel, guidance and support.

Andrew (Andy) Poprawa, CA, C.Dir.
President & CEO

DEPOSIT INSURANCE RESERVE FUND

Comparison with Other Provincial Jurisdictions



DICO'S 2011 FINANCIAL SCORECARD ($MILLIONS)		
	DICO Plan	DICO Actual
Insurance Fund	$107.7	**$113.2**
Gross Insurance Provisions	$ 5.0	**$ 4.4**
Recovery of Prior Years Losses	0	**($ 4.5)**
Total Gross Operating Expenses	$ 9.0	**$ 8.8**
Total Net Operating Expenses	$ 8.4	**$ 6.7**
Return on Investments	1.0%	**1.04%**

DICO's Business Model 2012

DICO has developed a business model to encapsulate the way in which the Corporation conducts its business in light of its legislation and overall environment. This business model reflects DICO's position as an integral part of Ontario's financial safety net, with its own legislated mandate. DICO's Board of Directors and management activities are considered under the umbrella category of governance. This also reflects the importance of strategic management and enterprise risk management. The importance of accountability is also highlighted in the business model, as are the major functions of the Corporation in fulfilling its mandate.

Ontario's Financial Institutions - Regulatory / Supervisory System

Ministry of Finance, Financial Services Commission of Ontario, Deposit Insurance Corporation of Ontario

Legislative Environment

Credit Unions and Caisses Populaires Act

DICO's Business Objectives

For the Benefit of Depositors:

- Provide Deposit Insurance
- Promote Standards of Sound Business and Financial Practices
- Prudential Standards and Solvency Regulation

Other Legislation, Statutory Requirements and Guidelines, including

- Management Board of Cabinet Directives
- Other Acts, i.e. *French Language Services Act, Employment Standards Act*, etc.

Governance

Board of Directors

Strategic and Policy Direction

Risk Oversight Committee	Governance & Human Resources Committee	Audit and Finance Committee

Accountability

- Corporate Plan
- Annual Report
- Stakeholder Meetings
- Stakeholder Advisory Committee
- External Auditor Advisory Committee

Strategic Management

DICO's Business Strategies:

- Risk Assessment / Management
- Minimizing Insurance Costs
- Protecting Depositors
- Collaborative Relationships
- Efficiency & Effectiveness

Enterprise Risk Management

DICO's Key Risk Categories:

- Strategic - incl. Reputational
- Insurance - incl. Systemic
- Regulatory
- Operational
- Financial
- Compliance

Major Functions

- Policy Development
- By-law Review & Development
- Advice on Legislation
- Standards of Sound Business & Financial Practices
- Depositor Communication & Awareness
- Internal Communications
- Liaison with Stakeholders
- International Collaboration
- Solvency Regulation

- Risk Assessment
- Insurance
- Member Compliance with Legislation & By-laws
- Intervention / Failure Resolution
- Payout Management
- Claims & Recoveries Management
- Payment Obligations
- Certificate of Insured Deposits
- Differential Premium System

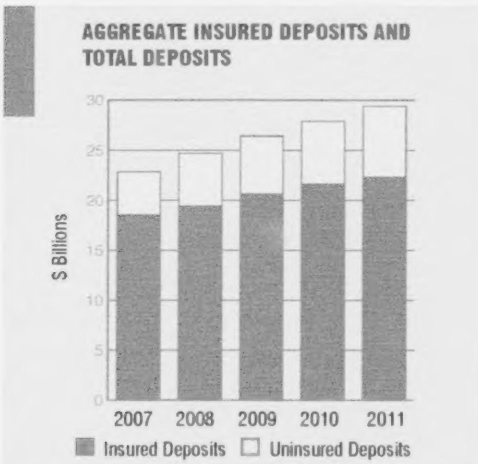
- Litigation Management
- Asset & Liability Management
- Finance & Treasury
- Human Resources Management
- Legal & Corporate
- Information Systems Technology & Management
- Internal Audit

Control Environment

Management's Discussion and Analysis

Sector Overview

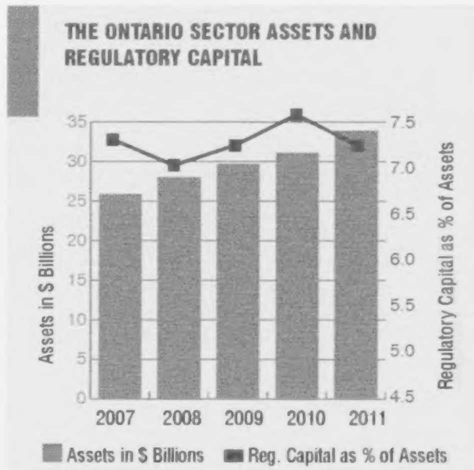
The Deposit Insurance Corporation of Ontario (DICO) provides protection for all eligible deposits held at Ontario credit unions and caisses populaires. Established by provincial legislation, deposit insurance is part of a comprehensive protection program in all Ontario credit unions and caisses populaires. DICO insures most deposits up to $100,000 subject to the eligibility criteria and maximum coverage limits. Deposits held in registered savings plans are fully insured with no maximum limit. For more details regarding the basic coverage that is available for all eligible deposits please visit our web site **www.dico.com**.



DICO fulfills its mandate in a complex and dynamic environment. The credit union and caisse populaire sector is well capitalized at an average of 7.2% of assets. While this is a decrease from 2010 (7.5%), it is the result of accounting changes required by the implementation of the International Financial Reporting Standards (IFRS) which became effective in January 2011. Mortgage securitizations and the valuation of future employee benefits were the areas which had the largest downward pressure on aggregate sector capital of an estimated 22 basis points.

The economy, the performance of insured institutions and legislative and regulatory developments are continually monitored. During 2011, the Ontario economy has seen modest improvement, with small gains in exports and higher levels of employment.

The Bank of Canada is continuing its low interest rate policy and is expected to delay further increases in rates for some time depending on the success of US economic policies to help stimulate growth and the continued economic turmoil in Europe. The impact on earnings from lower interest rates in the past year is estimated at $25 million, primarily due to lower mortgage loan yields.



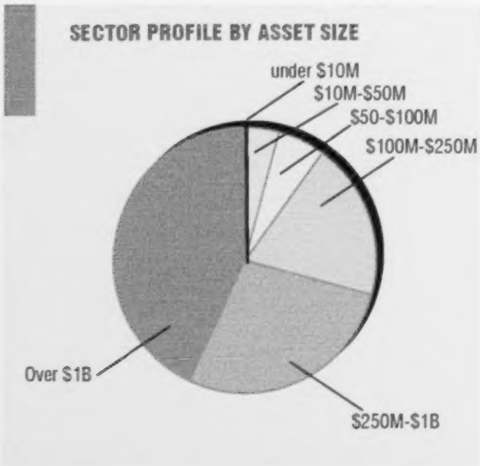
In contrast, the housing sector has improved and continues to benefit from the low interest rate environment. House prices and sales remain healthy although unsecured household debt is increasing. The Bank of Canada has been warning about the dangers of carrying high levels of debt as interest rates will eventually rise leaving borrowers with larger payments they may no longer be able to support. Potential credit defaults could have a negative impact on the sector. While the economy has seen some improvement in 2011, Ontario's recovery and economic growth is expected to remain slow for some time along with continued weakness in the U.S.

RISK MANAGEMENT DIVISION, REGIONAL MANAGEMENT *(from left to right)*: Tony D'Errico, Adrienne Barber, Guy Hubert, Bob Edmison, Brian Mullan;
Missing: John Hutton

DICO'S SECTOR PROFILE AT A GLANCE		
	2011	2010
Number of Institutions	**152**	167
Total Assets (billions)	**$33.8**	$31.0
Total Deposits (billions)	**$29.4**	$27.9
Insured Deposits (billions)	**$22.3**	$21.5
Insured Deposits as a % of Total Deposits	**76%**	77%
Regulatory Capital Ratio (Leverage Basis)	**7.20%**	7.52%
Asset Quality (loan costs as a % of Average Assets)	**0.11%**	0.15%
Profitability (net income as a % of Average Assets)	**0.51%**	0.48%

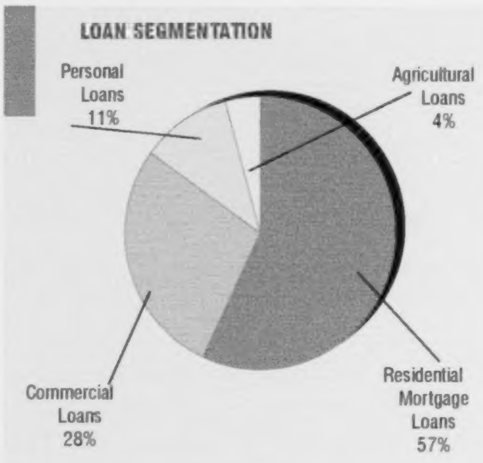
Overview of Ontario Credit Unions and Caisses Populaires

During 2011 the long term trend of consolidation continued. The number of active insured institutions declined by 15 to a total of 152, as a result of mergers or wind-ups. Smaller institutions continue to merge with larger ones to form stronger institutions, reducing the risk in the sector. Today, about 50% of the assets of the Ontario movement are held by the largest 8 insured institutions while 5% of assets are held by the smallest 68 institutions. This distribution of assets remains an interesting and challenging dynamic within the industry. Further consolidation is expected as institutions look to grow and protect their members' assets.



Growth in aggregate on-balance sheet assets increased year over year by 8.8% to $34 billion. Commercial loan growth remained fairly strong at 8% (6% in 2010 and 8% in 2009), and aggregate residential mortgage loans also grew by 15% (6% in 2010); half of the growth in mortgage loans was the result of the change in accounting treatment as the result of the implementation of IFRS.

Personal loans again showed negligible growth in 2011 (-3.0% in 2010), resulting in a continuation of the decline of personal loans as a percentage of total loans.

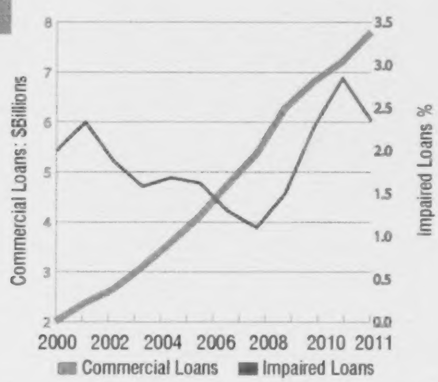


Throughout 2011 the sector's aggregate credit risk, as measured by aggregate loan costs and delinquency, declined as market and economic conditions improved. Notwithstanding this modest improvement, the coverage ratio (loan allowances

RISK MANAGEMENT DIVISION, Examinations
(from left to right)
Sitting: Roman Sochaniwsky, Shivdeep Singh, Guy Hubert, Alana McLeary, Marg Madari
Standing: Robin Bell, James Stephenson

as a percentage of impaired loans) has declined marginally to 41 per cent compared to 46 per cent in 2010. Gross delinquency greater than 30 days declined to 116 basis points of total loans from 141 basis points in 2010 although this remains well above historical levels. Loan costs also declined to 11 basis points (15 basis points in 2010). Delinquency levels and impairments, in commercial lending are still a concern, however, there was a significant improvement in 2011. During 2011, commercial loan impairment decreased to 256 basis points compared to 297 basis points in 2010.

COMMERCIAL LOANS

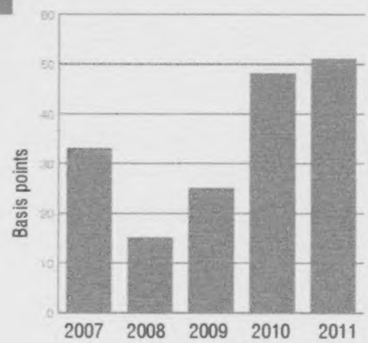


At the end of 2011 liquidity decreased marginally to 13.7% compared to 14.3% in 2010. Aggregate capital decreased to 7.2% of assets (7.5% in 2010). More than 4% of capital was comprised of retained earnings. All but one insured institution met the prescribed statutory minimum capital requirements.

Profitability during 2011 improved to 51 basis points from 48 basis points in 2010. Despite this improvement, a number of institutions experienced operating losses during 2011. These institutions are being closely monitored to ensure that the underlying reasons for the losses are being rectified and sufficient capital is being injected by members to support their continued viability.

EARNINGS IN THE ONTARIO SECTOR

Based on data as of February 6, 2012



During 2011, adherence to the Standards of Sound Business and Financial Practices declined slightly as measured by the results of the Examination program. At the end of the year, 83% of insured institutions (based on assets), were in full compliance with all standards compared to 84% in 2010. Weakness in credit risk management was the main cause of institutions not being in full compliance with the standard.

DICO's Differential Premium System (DPS) is based on the aggregate risk profiles of institutions using quantitative and qualitative factors for five key components - capital, asset quality, adherence to standards of sound business and financial practices, earnings, and interest rate risk.

In 2010, the government approved a 15% increase in premium rates which took effect for all institutions with financial year ends beginning on or after January 1, 2011. While the average premium rate increased to

$1.14 as a result of the increase, the table indicates that there has been a slight improvement in the aggregate DPS ratings at the end of 2011.

ANNUAL RISK PREMIUM SUMMARY
(as a percentage of total assets)

PREMIUM RATE ($ PER $1,000)	RISK LEVEL	2011	2010	2009	2008	2007
1.00	Low	53%	47%	26%	32%	42%
1.15	Low +	34%	34%	53%	56%	46%
1.40	Moderate	10%	10%	16%	9%	10%
1.75	High	2%	8%	3%	1%	2%
3.00	High +	1%	1%	2%	2%	0%

In the context of a continuing low interest rate and competitive market environment, the Ontario credit union and caisse populaire sector has further consolidated and, at the same time, grown to expand services to its members and communities across the province. While profitability in some insured institutions continues to be a concern for their future viability, the sector remains relatively stable and plays an important and increasing role in the financial and economic landscape in Ontario providing cost effective banking alternatives to Ontarians.

REGULATORY AFFAIRS DIVISION *(from left to right)*
Front row: Richard White, Richard Dale, Louise Hamilton
Back row: Sébastien Daniels, Steve Kokaliaris, Suzanne Tucker, Brigitte Elie

Legislative and Regulatory Developments

Amendments to the Credit Unions and Caisses Populaires Act and revised Regulation which came into force October 1, 2009 provide credit unions and caisses populaires with augmented capabilities to compete in the financial services marketplace. In addition, DICO's role, responsibilities and powers were expanded to include solvency regulation with broader scope to protect depositors and members and to contribute to the stability of the sector.

During 2011, DICO received seven applications relating to asset purchase and sales, two applications relating to investing in another credit union and one application relating to the establishment of a subsidiary by a credit union. DICO also issued four Supervision orders and two Administration orders.

Information regarding DICO's regulatory powers and activities, including criteria, guides and service standards is available on its web site **www.dico.com**.

2011 Financial Overview

Adoption of International Financial Reporting Standards (IFRS)

On January 1, 2011, DICO transitioned to International Financial Reporting Standards (IFRS) from Canadian Generally Accepted Accounting Principles (CGAAP). The Corporation has completed its first set of financial statements prepared in accordance with IFRS for the year ended December 31, 2011, with IFRS-compliant comparatives for the year ended December 31, 2010 and also the adjusted opening statement of financial position at January 1, 2010.

The IFRS related disclosures and values have been prepared using the standards and interpretations currently issued and effective at December 31, 2011. One of the most significant changes in accounting policies to DICO is IAS 27 - Consolidations. Under CGAAP, as liquidator of institutions in liquidation, DICO was required to consolidate those institutions that met the criteria for variable interest entities (VIEs). Under IFRS, the concept of VIEs does not exist. After assessing the control and other criteria pursuant to IAS 27, it was concluded that DICO does not obtain ownership benefits as a result of its activities as supervisor, administrator or liquidator of institutions in financial difficulty. Accordingly, no consolidation of institutions in liquidation is required in 2011. The full impact of the conversion and reconciliation on DICO's financial position and results of operations is disclosed in Note 16 of the Notes to Financial Statements as at December 31, 2011.

This section contains a review of some key components of the Corporation's financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

2011 financial highlights:

- Premium income increased $3.1 million or 15% in 2011 to $24.3 million, mainly due to the implementation of increased premium rates to institutions with financial year ends beginning on or after January 1, 2011.
- Total operating expenses, net of recoveries, were $6.7 million compared with $7.1 million in 2010. The decrease was primarily attributable to significantly higher recoveries from fees charged to liquidated estates for loan collection efforts, offset in part by higher legal fees and increased investments in our people and in technology.
- Specific provisions for insurance losses were adjusted by recoveries as well as increases on past losses which resulted in a net impact of $0.1 million recoveries compared to the provision of $1.5 million in 2010. There was no increase in the general loss provision.
- The net contribution to the Deposit Insurance Reserve Fund (DIRF) in 2011 was $18.7 million, increasing the DIRF balance to $113.2 million at December 31, 2011. The fund represents 51 basis points of insured deposits, an improvement of 7 basis points when compared with 2010. The increase was largely attributed to an increase in premium revenue as well as no net loss provisions for the year.

Summary Review of Statement of Financial Position

As of December 31, 2011, DICO's total assets increased by $20 million, or 18% from 2010 to $128 million. The growth in total assets was mainly due to the increase of investments of $24 million or 36%, and offset by the reduction of deposit insurance advance recoverable of $6 million or 18%.

Investments

DICO's investment portfolio is the prime source of funds to meet potential deposit insurance claims from depositors in insured institutions. DICO's investment policy is formulated to ensure that the Corporation has the resources readily available to pay out insured deposits when warranted. Our key objectives are to achieve an appropriate balance between liquidity, investment security and yield as well as compliance with the requirements of both the provisions of the Income Tax Act and Regulation 237/09 of the *Credit Unions*

and Caisses Populaires Act, 1994 (the "Act"). The assets in DICO's portfolio are invested and managed by Ontario Financing Authority in accordance with an Investment Management Agreement.

DICO's investments as at December 31, 2011 carried a weighted average yield to maturity of 0.85% (2010: 1.07%) with weighted averaged 62 days to maturity (2010: 70 days). The Corporation's exposure to market, credit and interest rate risks is very minimal due to its conservative portfolio and short-term duration.

In November 2011, in order to facilitate the orderly wind-down of a number of credit unions in liquidation, DICO purchased the CUCO Co-op Class B shares held by these 13 credit unions at the carrying cost of $393,000. All investments are classified as available-for-sale. These investments are measured at fair value at the end of the reporting period with unrealized gains and losses recorded in other comprehensive income until realized or sold.

Deposit insurance advances recoverable

DICO is responsible under the Act to pay deposit insurance claims from depositors up to statutory limits when the insured institution is no longer able to meet its obligations to depositors. Provisions for losses are estimated based on the net costs to DICO's insurance fund after the anticipated realization of assets and other recoveries of the failed institution. When funds advanced in respect of deposit insurance claims are in excess of the estimated loss provision at the end of the reporting period, the balance is reported as deposit insurance advance recoverable on the statement of financial position.

DICO recovered a net total of $5 million during 2011 to reduce the advance recoverable balance to $27 million (2010: $33 million).

Accrual for deposit insurance claims

The accrual for deposit insurance claims represents the amount of losses which have not been advanced at the date of the Statement of Financial Position. The total includes both provisions for specific losses and a general accrual for losses. As of December 31, 2011 total accruals amounted to $5.3 million, of which a total of $5 million represented the general accrual for losses. The general accrual amount remains the same as 2010 and reflects management's best estimate of losses on insured deposits arising from the inherent risk in insured institutions.

Deposit Insurance Reserve Fund (Fund)

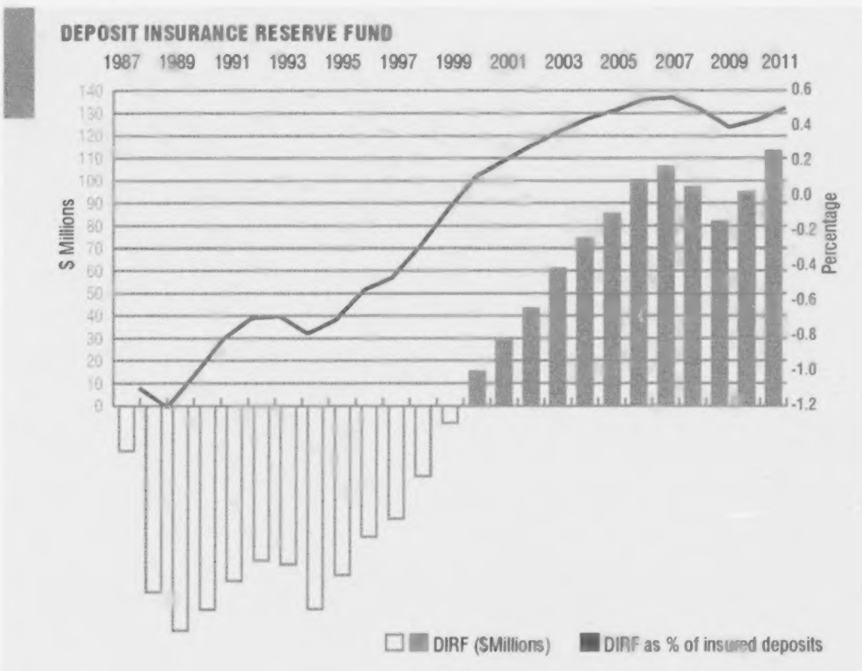
DICO is responsible for providing insurance against the loss of part or all of deposits with Ontario credit unions and caisses populaires. One of the primary mechanisms to ensure that deposit funds are well insured is the maintenance of a deposit insurance reserve fund ("fund"). In order to ensure that the fund is sufficient to cover its insurance risks, DICO evaluates the adequacy of the fund and of its liquidity requirements on a regular basis. DICO, with the assistance of an actuarial consulting firm, has developed a sophisticated model to determine the appropriate range of the fund size based on a number of principles, assumptions and other factors which include criteria such as the risk profile of insured institutions, economic conditions, premium revenue, interest rates, loss history, risk migration and sector growth. The assumptions and other factors used in the model are updated regularly to account for changes in the sector's environment.

In order to determine the capacity of the fund to withstand insurance losses, DICO uses a confidence level of 95%. This level assumes there is a 95% degree of confidence that the fund would be sufficient to withstand potential losses over a 20 year period without going into a deficit position. Under these assumptions and parameters, DICO has currently established a fund target range of between 56 basis points (bps) and 68 bps of insured deposits. The fund has been below the minimum target range of 56 bps for some time and

DICO has been actively monitoring the negative trend. As a result, DICO determined what steps needed to be taken to restore the balance in the fund to the target range. These steps are currently being deployed and include the implementation of robust risk management and regulatory programs to reduce losses, proactive steps to recover on past insurance losses and an increase in premium levels to provide higher revenues. It is anticipated that the minimum target levels will be restored by 2013, if the assumptions prove to be correct and there are no adverse circumstances.

For the year ended December 31, 2011 ($ thousands unless indicated)	Actual 2011	Actual 2010	Actual 2009	Change from 2010		Plan 2011
	$	$	$	$	%	$
DIRF	**113,204**	94,553	81,493	18,651	19.7%	107,708
% of Sector Insured Deposits	**0.51%**	0.44%	0.40%	0.07%	15.9%	0.48%
Estimated Sector Insured Deposits ($billions)	**22.3**	21.5	20.6	0.8	3.7%	22.7

The fund as at December 31, 2011 reached $113.2 million, up $18.7 million or 19.7% from $94.6 million a year ago. It represented 51 bps of the sector's insured deposits, an improvement of 7 bps compared with last year. The growth in the fund was primarily attributable to the increase in premium revenue through premium rate increase and insurance recoveries from prior losses. In 2011, total income amounted to $25.2 million, against net operating expenses of $6.7 million and a net recovery for insurance losses of $0.1 million, resulting in a net gain for the year of $18.7 million.



Review of Statement of Operations and Changes in the Fund

Premium income

For the year ended December 31, 2011 ($ thousands unless indicated)	Actual 2011	Actual 2010	Actual 2009	Change from 2010		Plan 2011
	$	$	$	$	%	$
Premium Income	**24,342**	21,196	19,947	3,146	14.8%	25,300
Average premium rate per thousand $ of insured deposits	**$1.14**	$1.03	$1.03	0.11	10.7%	$1.18

With the fund as low as 44 bps at the end of 2010, the Board and the Ministry of Finance approved the implementation of premium rate increase effective January 1, 2011 in an effort to restore the fund to a level within our established range of 56 to 68 bps as early as possible.

Premium income increased $3.1 million or 15% in 2011 to $24.3 million. The increase was primarily due to the revision to the differential premium rate effective for insured institutions with fiscal years ending on and after December 31, 2010. The average premium rate charged in 2011 was $1.14 per thousand of insured deposits compared with $1.03 in 2010.

Differential premium rates in effect for 2011 increased approximately 15% over the prior year's existing five premium tiers. Premiums are based on the total amount of insured deposits held by insured institutions as of their fiscal year ends, calculated in accordance with the Differential Premium Risk Classification System as defined by the Regulation.

Premium Class	**1**	**2**	**3**	**4**	**5**
Risk Rating	Low	Low +	Medium	High	High +
Premium Rate	$1.00	$1.15	$1.40	$1.75	$3.00

Provision for Deposit Insurance Losses

For the year ended December 31, 2011 ($ thousands unless indicated)	Actual 2011	Actual 2010	Actual 2009	Change from 2010		Plan 2011
	$	$	$	$	%	$
Provision for insurance losses	**4,350**	1,550	29,322	2,800	181%	5,000
Less: Recoveries of previous provision of insurance losses	**(4,447)**	(44)	-	-4,403	-10,007%	-
Net (recoveries) / Provision for insurance losses	**(97)**	1,506	29,322	-1,603	-106%	5,000

The provision for insurance losses represents the Corporation's best estimate of the losses it is likely to incur as of December 31, 2011. It includes the specific and general provision for insurance losses. During 2011, 5 new institutions were placed in liquidation. At the end of the year, DICO managed total of 25 institutions in liquidation (2010 - 20).

At December 31, 2011, DICO recorded $4.35 million of specific provisions with respect to 3 institutions in liquidation and the recoveries of $4.45 million relating to prior years' insurance losses, netting a recovery of $0.1 million. The general accrual for insurance losses remained unchanged for 2011, reflecting a general view of stable conditions in the credit union system.

Operating expenses

For the year ended December 31, 2011 ($ thousands unless indicated)	Actual 2011	Actual 2010	Actual 2009	Change from 2010		Plan 2011
	$	$	$	$	%	$
Gross operating expenses	**8,779**	7,537	7,045	1,242	16.5%	8,995
Recovery of operating expenses	**(2,126)**	(391)	(400)	-1,735	-443.7%	(599)
Net operating expenses	**6,653**	7,146	6,645	-493	-6.9%	8,396

Net operating expenses for the year ended December 31, 2011, totaled $6.7 million compared with $7.1 million last year, a net reduction of $0.4 million. Salaries and personnel benefits are the major operating costs for DICO, represented 68% of total gross operating expenses. In 2011 DICO had strengthened the effectiveness of its examination process by increasing the number of examination staff. DICO's objective was to reduce the reliance on third party examiners and to build a strong team of examination staff. This approach is designed to address insurance risks more effectively. Other major expenses are costs of premises (6%), examinations–external (5%) and legal fees (4%). Operating expenses are net of cost recoveries received mainly from liquidation services provided to estates of institutions in liquidation and fees charged to institutions in Supervision and Administration.

DICO's Strategic Plan 2012-2014

STRATEGIC GOALS

Proactive
Establish standards and guidelines to help insured institutions manage risk

Proactive / **Reactive**

Reactive
Use regulatory and other powers to reduce the likelihood of losses

DICO MISSION To Protect Depositors and Contribute to the Sector's Stability

DICO VISION We will contribute to the soundness, stability and success of the Ontario Credit Union/ Caisse Populaire sector by being an effective solvency regulator and deposit insurer

KEY STRATEGIC OBJECTIVES

- Proactive, Balanced Risk Based Regulation & Risk Management
- Sound Governance (DICO)
- Effective Public & Stakeholder Awareness
- Strong Partnerships

MAJOR INITIATIVES/ PRIORITIES

- ERM
Director Competencies
Commercial Lending
Examinations
Reporting & Analysis
Bonding Insurance
- Exceed Fund Targets
Attract /
Retain Required Skills
- Educational Webinars
Guidance Notes
Web site Outreach
- Complementary Strategies
- Central 1
- Leagues

ENABLING STRATEGIES

- Implement Segmentation Strategy - Jumbo, Mid-size, Small, CPs
- Enhance Operational Capacity – People, Resources, Technology
- Instill Regulatory Culture
- Improve Institutional and Sector Performance

DICO's Risk Management

DICO's risks are managed in the context of our Enterprise Risk Management Framework (ERM) – a well defined set of Board approved risk management policies and practices, including a well defined risk appetite, to ensure that the Board, the Risk Oversight Committee of the Board and management understand and respond to the risks to which we are exposed. The ERM is reviewed in detail annually and is a primary driver in the development of DICO's operational business plan and budget each year.

Overview of DICO's Assessment of Significant Risks

Description of Risk	Risk Level	Risk Trend
DEPOSIT INSURANCE RISKS: *DICO'S RISK OF LOSS RESULTING FROM:*		
Risk Assessment / Monitoring Risk: **The risk that DICO does not promptly or systematically identify insured institutions that pose an unacceptable level of insurance risk resulting in financial loss.**	MODERATE	—
Risk Management / Intervention Risk: **The risk that DICO does not take appropriate action with respect to an unacceptable level of insurance risk posed by an insured institution resulting in financial loss.**	MODERATE	—
Failure / Loss Management Risk: **The risk that DICO does not take appropriate action to manage insured institutions that are under Administration or in Liquidation resulting in increased financial loss.**	LOW	—
Failure of Insurance to cover fraud / losses: **The risk that material fraud in an institution will expose its members and the DIRF to loss.**	HIGH	—
Economic Environment Risk: **The risk to DICO that insured institutions are negatively impacted by regional, provincial and national economic factors.**	MODERATE	—
DICO'S CORPORATE RISKS		
Strategic Risks: **DICO's risk of loss resulting from failure of the overall Regulatory Framework and DICO's strategies to address significant and / or emerging risks including:** • Political Risks • Strategic Direction Risk • Regulatory Framework Risk / The Act / Government Policy Risk • Reputation Risk • Communications Risk	LOW	—
Regulatory Risks: **The risk that DICO fails to address non-compliance by insured institutions which leads to harm to depositors, members and shareholders including:** • Prudential Standards Risk • Non-Compliance Risk	LOW	—
Financial Risks: **DICO's risk of loss associated with managing its assets and liabilities including:** • Adequacy of the Deposit Insurance Reserve Fund Risk • Liquidity Risk • Investment / Market Risk • Internal Controls Risk	LOW / MODERATE	—
Operational Risks: **DICO's risk of loss resulting from inadequate or ineffective internal processes, people and systems, or from external events including:** • Business Continuity Risk • Technology Risk • Human Resources Risk	LOW / MODERATE	—
Compliance Risks: **DICO's risk of loss resulting from failure to comply with all applicable legislation and directives including:** • *Credit Unions and Caisses Populaires Act* Risk • Management Board Directives Risk • *Income Tax Act* Risk • Human Resources Legislation Risk • Other legislative Risk	LOW	—

Balanced Scorecard Overview 2011 - 2014

▲ Planned progress on schedule and within budget
▼ Slippage in terms of time to completion and/or budget variances
► In progress or deferred

DICO's Mission: ***To protect depositors and contribute to the stability of the Ontario Credit Union and Caisse Populaire sector***

STRATEGIC OBJECTIVES	2011 RESULTS	2012-2014 PLANNED KEY INITIATIVES	KEY PERFORMANCE INDICATORS
PROACTIVE AND BALANCED RISK-BASED REGULATION AND RISK MANAGEMENT DICO must continually stay alert to indicators of risk and the emergence of new risks so that it can respond quickly to manage insurance risk. The Corporation is focused on continuing to build its strength in risk assessment, risk management, loss management and in its regulatory role.	**Risk and Regulatory Compliance Assessment**		
	• Implemented revised e-filing system ▲ • High risk /non-compliant institutions identified within 30 days of reporting/ examinations ▲ • ERM Implemented for large institutions ▲ • By-laws #5 & #6 approved implemented ▲ • Expanded In-house examination capacity ▲	• Improved Risk Assessment Profile process • Improved early warning systems (flags) • Continue to strengthen in-house examination capacity • ERM for all Insured Institutions • Director Competency Standards issued	• Compliance with regulations and Standards of Sound Business & Financial Practices • Timely Identification of non-compliance and high risk institutions
	Risk Management		
	• All institutions meeting defined criteria in appropriate program ▲ • Improved risk ratings for institutions in programs ▲	• Assign high risk institutions to appropriate programs • Review criteria for Supervision and Administration	• All institutions in appropriate programs based on risk profiles • Improvement of risk profiles for institutions in Supervision
	Failure Resolution		
	• Failure resolution strategies in place ▲ • Public confidence maintained ▲ • Losses minimized ▲	• Appropriate failure resolution strategies employed • Continuation of services for members and depositors • Mitigate losses to DIRF	• Institutions in appropriate programs based on defined criteria • Public confidence maintained • Losses minimized
	Depositor and Liquidations Payouts		
	• Timely Depositor payouts ▲ • Maximize recoveries ►	• Timely depositor pay outs • Timely, accurate completion of liquidations • Maximize collections and recoveries from legal actions	• Depositors paid within 30 days • Maximized recoveries • Public confidence maintained
	Regulatory Actions		
	• Guidelines published ▲ • Regulatory orders and approvals issued as needed ▲ • Service standards met ▲ • Webinars for management and directors of insured institutions ▲	• Implement Director competency standards • New/revised Self- Assessment Workbook, Examination Guide, Process Guides • Publish Guidelines & Guidance Notes • Issue orders as required • Webinars for management and directors of insured institutions	• Effective governance • Improved understanding and compliance • Consistent application • Service standards met for Regulatory approvals • Transparent processes

<table>
<tr><th>STRATEGIC OBJECTIVES</th><th>2011 RESULTS</th><th>2012-2014
PLANNED KEY INITIATIVES</th><th>KEY PERFORMANCE INDICATORS</th></tr>
<tr><td rowspan="6">SOUND CORPORATE GOVERNANCE

To maintain stakeholder and public confidence DICO must demonstrate that it is governed and managed in an efficient and effective way.
To achieve this DICO will maintain sound governance; manage its significant risks (ERM) and work to ensure that sufficient funds are available to protect depositors.</td><td colspan="3">Sound Governance</td></tr>
<tr><td>• Compliance with Act, Directives and policies ▲
• Net operating expenses $6.7M or $1.7M under budget ▲
• HR & IT strategies in place ▲
• Ombudsman function in place ▲
• Expanded Internal Audit ▲</td><td>• Compliance with Act and policies
• Compliance with all laws and Directives and DICO policies
• Net operating expenses $8.9M for 2012
• HR & IT strategies in place
• Ombudsman function in place</td><td>• Meeting Corporate Objectives
• Compliance with statutes and Directives & Policies
• Budget targets met
• Internal staff resources strengthened
• Effective complaints mechanism</td></tr>
<tr><td colspan="3">Effective Enterprise Risk Management (ERM)</td></tr>
<tr><td>• ERM updated and expanded ▲
• Internal audit review of ERM ▲</td><td>• ERM continually updated and improved - implement audit recommendations</td><td>• Identification and management of all material risks
• Integration of ERM with Business Plan and Budget</td></tr>
<tr><td colspan="3">Adequate Deposit Insurance Reserve Fund</td></tr>
<tr><td>• DIRF reached $113.2M ahead of the minimum $107.7M target for the year ▲
• Provincial Line of Credit in place ▲
• Premium increase recommendation to the Minister was approved and effective in 2011 ▲</td><td>• 2012 year end DIRF projected at $125M or 54 bps of insured deposits
• 2013 year end DIRF projected at $138M or 58 bps of insured deposits
• 2014 year end DIRF projected at $153M or 62 bps of insured deposits
• Review premium structure/ strategy</td><td>• Minimum fund targets achieved
• Appropriate liquidity to meet insurance/ dissolution needs
• Preservation of capital and rate of investment return</td></tr>
<tr><td rowspan="8">EFFECTIVE PUBLIC AND STAKEHOLDER AWARENESS

DICO must ensure that the public and other stakeholders have ready access to deposit insurance information and a clear & transparent understanding of DICO's role, standards & actions.</td><td colspan="3">Comprehensive Web site</td></tr>
<tr><td>• Web site continually updated ▲</td><td>• Update Q&As for consumers
• Deposit insurance audio information</td><td>• Transparency and accessibility of all appropriate information</td></tr>
<tr><td colspan="3">Toll-free Information Service</td></tr>
<tr><td>• Toll free enquiry line in place and heavily utilized ▲</td><td>• Maintain bilingual help line</td><td>• Utilization and response times</td></tr>
<tr><td colspan="3">Point of Sale Consumer Information</td></tr>
<tr><td>• Updated point of sale information available for all institutions ▲</td><td>• Revise and distribute as necessary
• Expanded Quick Reference Guides for front line staff</td><td>• Informative Brochures
• Decals
• Quick Reference Guides</td></tr>
<tr><td colspan="3">Communications</td></tr>
<tr><td>• Communications plan in place ▲
• Annual Meeting April 27 ▲
• Regular Sector Releases, Sector Outlooks etc. ▲
• Timely Webinars on current topics ▲
• Positive survey results ▲</td><td>• Continually updated Communication strategy
• Annual Meeting (April 19)
• Timely Webinars on current topics
• Timely Publication of sector information</td><td>• Consistent messages from DICO
• Effective Annual/ regional meetings
• Stakeholder feedback</td></tr>
</table>

<table>
<tr><th>STRATEGIC OBJECTIVES</th><th>2011 RESULTS</th><th>2012-2014
PLANNED KEY INITIATIVES</th><th>KEY PERFORMANCE INDICATORS</th></tr>
<tr><td rowspan="4">STRONG PARTNERSHIPS

To have the most expertise and impact DICO needs to work effectively with the government, sector / stakeholder representatives and other national and international deposit insurers.</td><td colspan="3">Strategic Alliances</td></tr>
<tr><td>• Memoranda of understanding in place with strategic partners</td><td>• Maintain MOUs and effective working relationships</td><td>• Partners (Stakeholders and DICO's) satisfaction - feedback</td></tr>
<tr><td colspan="3">Stakeholder Relations</td></tr>
<tr><td>• Consultations process on premiums, ERM, director competencies, etc.
• Advisory Committees</td><td>• Advisory Committees
• Consultation on all significant issues
• Annual Meeting April 19
• Regional Meetings if necessary</td><td>• Partners' (Stakeholders and DICO) satisfaction - feedback
• Awareness of stakeholder issues and support for DICO's initiatives</td></tr>
</table>

Management's Responsibility

The Deposit Insurance Corporation of Ontario's management is responsible for the integrity and fair presentation of the financial statements included in the annual report. The financial statements have been prepared in conformity with International Financial Reporting Standards.

The Corporation maintains systems of internal accounting controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that the Corporation's assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed by the Corporation's Audit and Finance Committee and have been approved by its Board of Directors. In addition, the financial statements have been examined by KPMG LLP, the auditors, whose report follows.

Andrew (Andy) Poprawa, CA, C.Dir.
President & CEO

James Maxwell, CHRP, FLMI
Chief Administrative and Financial Officer

Toronto, Canada

March 21, 2012

Independent Auditors' Report

KPMG LLP

To the Board of Directors of Deposit Insurance Corporation of Ontario

We have audited the financial statements of Deposit Insurance Corporation of Ontario ("the Corporation"), which are comprised of the Statement of Financial Position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the Statement of Operations and Changes in the Deposit Insurance Reserve Fund, Comprehensive Income, Changes in Equity and Cash Flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Deposit Insurance Corporation of Ontario as at December 31, 2011, December 31, 2010 and January 1, 2010 and the results of its financial performance and Cash Flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Chartered Accountants, Licensed Public Accountants
March 21, 2012
Toronto, Canada

Deposit Insurance Corporation of Ontario

Statement of Financial Position

(in thousands of dollars)	Note 16	December 31, 2011	December 31, 2010	January 01, 2010
ASSETS				
Current assets				
Cash and cash equivalents		$ 1,710	$ 1,867	$ 1,313
Investments	5	92,294	68,390	85,885
Premiums receivable		4,002	3,940	3,714
Prepaid expenses and other receivables		1,002	318	159
Total current assets		99,008	74,515	91,071
Non-current assets				
Deposit insurance advances recoverable		27,333	32,632	15,261
Property, plant and equipment, net	7	517	1,416	1,238
Intangible assets, net	8	795	-	-
Other investments	5	517	-	-
Total Non-current Assets		29,162	34,048	16,499
Total assets		$ 128,170	$ 108,563	$ 107,570
LIABILITIES				
Current liabilities				
Payables and accruals		$ 649	$ 646	$ 693
Deferred premium income		4,178	3,893	3,776
Total current liabilities		4,827	4,539	4,469
Non-current liabilities				
Payables and accruals		934	941	948
Employee benefits	9	3,703	3,206	2,773
Accrual for deposit insurance claims	6	5,286	5,275	17,871
Total non-current liabilities		9,923	9,422	21,592
Total Liabilities		$ 14,750	$ 13,961	$ 26,061
EQUITY				
Accumulated other comprehensive income		$ 216	$ 49	$ 16
Deposit Insurance Reserve Fund		113,204	94,553	81,493
Total Equity		$ 113,420	$ 94,602	$ 81,509
Total Liabilities and Equity		$ 128,170	$ 108,563	$ 107,570

See accompanying notes to financial statements.

On behalf of the Board:

_______________________ Director

_______________________ Director

Deposit Insurance Corporation of Ontario

Statement of Operations and Changes in the Deposit Insurance Reserve Fund

(in thousands of dollars)	Notes	Year ended December 31, 2011	2010
INCOME			
Premium income	4	**$ 24,342**	$ 21,196
Other income		**865**	516
		25,207	21,712
EXPENSES			
Salaries and benefits		**5,975**	5,103
Operating expenses		**2,804**	2,434
Recovery of operating expenses		**(2,126)**	(391)
		6,653	7,146
Excess of income over operating expenses		**18,554**	14,566
(Recovery) provision of losses	6	**(97)**	1,506
Excess of income over expenses		**18,651**	13,060
Deposit Insurance Reserve Fund, beginning of year		**94,553**	81,493
Deposit Insurance Reserve Fund, end of year		**$ 113,204**	$ 94,553

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

Statement of Comprehensive Income

(in thousands of dollars)	Year ended December 31,	
	2011	2010
Excess of income over expenses	**$ 18,651**	$ 13,060
Other comprehensive income:		
Unrealized gains on available-for-sale investments	**42**	33
Unrealized gains on available-for-sale investments acquired from liquidated institutions	**125**	-
Total other comprehensive income	**167**	33
Comprehensive income	**$ 18,818**	$ 13,093

Statement of Accumulated Other Comprehensive Income

(in thousands of dollars)	Year ended December 31,	
	2011	2010
Accumulated other comprehensive income, beginning of year	**$ 49**	$ 16
Sale of available-for-sale investment from opening balance of accumulated other comprehensive income	**(49)**	(16)
Unrealized gains on available-for-sale investments	**91**	49
Unrealized gains on available-for-sale investments acquired from liquidated institutions	**125**	-
Net change	**167**	33
Accumulated other comprehensive income, end of year	**$ 216**	$ 49

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

Statement of Changes in Equity

(in thousands of dollars)	Unrealized gains/losses on available-for-sale investments *	Deposit Insurance Reserve Fund	Total equity
Balance at January 1, 2010	$ 16	$ 81,493	$ 81,509
Total comprehensive income:			
Excess of income over expenses		13,060	13,060
Other comprehensive income			
Net change in fair value of available-for-sale investments	33		33
Total comprehensive income	33	13,060	13,093
Balance at December 31, 2010	**$ 49**	**$ 94,553**	**$ 94,602**
Balance at January 1, 2011	$ 49	$ 94,553	$ 94,602
Total comprehensive income :			
Excess of income over expenses		18,651	18,651
Other comprehensive income			
Net change in fair value of available-for-sale investments	42		42
Net change in fair value of available-for-sale investments acquired from liquidated institutions	125		125
Total comprehensive income	167	18,651	18,818
Balance at December 31, 2011	**$ 216**	**113,204**	**113,420**

* Accumulated other comprehensive income

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

Statement of Cash Flows

(in thousands of dollars)	Notes	Year ended December 31, 2011	2010
Cash flows from (used in) operating activities:			
Excess of income over expenses		$ 18,651	$ 13,060
Adjustments for:			
(Recovery) provision of losses		(97)	1,506
Loss on disposal of property, plant and equipment		1	-
Unrealized gains on available-for-sale investments		167	33
Depreciation of property, plant and equipment	7	189	196
Amortization of intangible assets	8	107	-
		19,018	14,795
Changes in:			
Premiums receivable		(62)	(226)
Prepaid expenses and other receivables		(684)	(159)
Payables and accruals		(4)	(54)
Deferred premium income		285	117
Employee benefits		497	433
		32	111
Net deposit insurance recoveries (advances)	6	5,407	(31,473)
		24,457	(16,567)
Cash flows from (used in) investing activities:			
Interest received		819	494
Purchase of investments held at year end		(92,811)	(68,390)
Proceeds on sale of investments		67,571	85,391
Purchase of property, plant and equipment	7	(95)	(374)
Purchase of intangible assets	8	(98)	-
		(24,614)	17,121
Net increase in cash and cash equivalents		(157)	554
Cash and cash equivalents, beginning of year		1,867	1,313
Cash and cash equivalents, end of year		$ 1,710	$ 1,867

Cash and cash equivalents comprise cash and short-term investments less any borrowings.

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

Notes to Financial Statements Year ended December 31, 2011

1. Reporting entity

Deposit Insurance Corporation of Ontario ("DICO" or "the Corporation") is an "Operational Enterprise" Agency of the Province of Ontario established without share capital under the provisions of the *Credit Unions and Caisses Populaires Act, 1994* (the "Act").

The statutory objects of the Corporation under the Act are to:

- provide deposit insurance to depositors of Ontario credit unions and caisses populaires;
- promote and contribute to the stability of the sector;
- provide insurance while minimizing exposure to loss;
- collect and publish statistics; and
- perform the duties specified in the Act and as directed by the Minister.

The Act empowers the Corporation to assess its insured institutions deposit insurance premiums to meet the Corporation's requirements for insurance funding and administrative costs. The premium rates are set out in the regulation to the Act. The Corporation reviews the adequacy of the premium rate annually and advises the government accordingly.

The Minister of Finance provides DICO with a $250 million line of credit with the Ontario Financing Authority ("OFA") which is due for renewal on December 31, 2013. Under the revolving credit facility arrangement, interest cost on any outstanding debt obligation is charged at an annual rate equal to the province's cost of funds for borrowings with a three-month term, determined by the OFA at the time of the borrowing, plus an additional 0.40 percent per annum.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the Corporation's first financial statements prepared in accordance with IFRS and IFRS 1, *First-time Adoption of International Financial Reporting Standards*, has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 16.

(b) Basis of measurement

The Corporation's financial statements have been prepared on the historical cost basis, except for the financial instruments classified as available-for-sale, which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in the Corporation's functional currency which is the Canadian dollar. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The most significant areas of assumptions and judgments are disclosed in provisions for losses (note 6) and measurement of accrued benefit obligations relating to future non-pension post-retirement benefits (note 9).

3. Summary of significant accounting policies

To facilitate a better understanding of our financial statements, the Corporation has disclosed its significant accounting policies as summarized below. These policies have been applied consistently to all periods presented in the financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purpose of the transition to IFRS, unless otherwise indicated.

(a) Premium income

Premiums are based on a Differential Premium Risk Classification System, as defined by regulation applied to insured deposits held by insured institutions. Premium income is calculated based on the Annual Institution Return submitted by the insured institution, which is due 75 days after its fiscal year end. Premium income is recognized when earned.

(b) Provision for losses

The provision for losses includes allowances against deposit insurance advances to insured institutions in liquidation and an accrual for losses for which advances have not been made at the date of the statement of financial position.

Funds advanced in respect of deposit insurance and loans to insured institutions are initially recorded at cost. Deposit insurance advances recoverable are presented on the statement of financial position, net of allowances thereon.

The accrual for deposit insurance claims includes both provisions for specific losses and a general accrual for losses. Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation.

The general accrual for claims reflects management's best estimate of losses on insured deposits arising from the inherent risk in insured institutions. The provision is established by assessing the aggregate risk in insured institutions based on current market and economic conditions, the likelihood of losses and the application of historic loss experience. Future economic conditions are not predictable with certainty and actual losses may vary, perhaps substantially, from management's estimates. In the last quarter of 2010, management introduced a new methodology which evaluates all institutions with the highest risk score under our current prospective risk rating system. The methodology incorporates various iterations and key assumptions, such as historical probabilities of failures (from the Deposit Insurance Reserve Fund "DIRF" model) and actual probabilities of failure when possible. The model also categorizes the institutions based on asset size and discounts the estimated loss to the next 12 month period.

Model results are then considered along with the level of existing allowance, as well as management's judgement regarding economic and market conditions to come to a final determination of what the general accrual for claims should be.

(c) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into an independent entity and will have no legal or constructive obligation to pay further amounts. DICO's defined contribution pension plan covers all of DICO's regular, non-contractual employees. As well, there are supplemental arrangements which provide pension benefits for income in excess of registered pension plan limits. Earnings are charged with the cost of pension benefits earned by employees as service is rendered. A prepaid asset was recognized to account for those employees who have not met the vesting period of 2 years. Pension expense is determined by a fixed percentage of the employees' income plus the matching of the employees' contribution to a maximum of 4%. The Corporation assumes no actuarial or investment risk.

(ii) Defined benefit plans

The Corporation provides future non-pension post-retirement benefits which relate to DICO's extended health, dental and life benefits for both active employees for whom a full eligibility date was determined and existing qualified retirees. The Corporation accrues obligations under these plans as the employees render the service necessary to earn the future benefits and the benefit is discounted to determine its present value. There are no assets set aside to fund the benefits. The accrued benefits obligation is calculated annually by a qualified actuary using the projected unit benefit method prorated on service. Cumulative gains and losses in excess of 10% of the beginning of the year defined benefits obligations are amortized over the expected average remaining service of active members.

(iii) Other long-term employee benefits

The Corporation's other obligation in respect of long-term employee benefits is the amount of retention benefits accrued for some key employees. The plans are designed to ensure the retention of key personnel to provide sufficient time for effective succession planning. Acceptance of the benefits is

voluntary and the probabilities of acceptance are estimated at the end of the reporting period. The benefits are discounted to their present value if they are payable more than 12 months after the reporting period.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Corporation recognizes the unused entitlement of compensated vacations that has accumulated at the end of the reporting period as accrued short-term benefits.

(d) Financial instruments

DICO's investments are non-derivative financial assets and are classified, based on management's intentions, as available-for-sale. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within equity. When an investment is derecognized/sold, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated amortization and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the assets to a working condition for their intended use, including the borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized on a net basis within the other income category. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if appropriate.

(ii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value.

Depreciation of furniture and equipment is provided by the diminishing-balance method at the rate of 20 % per annum. Computer and related equipment and software are amortized over three years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(f) Intangible assets

The internally developed web-based software tool for electronic filing of financial data by the insured institutions is recorded as an intangible asset. The expenditure capitalized includes the direct cost of specialized and licensed software and direct labour costs that are attributable to preparing the asset for its intended use. The subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. The capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of 7 years from the date that the assets are available for use.

(g) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(h) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred

tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4. Premium income

($000)	2011	2010
	$24,342	$21,196

Differential premiums are calculated based on the amount of each institution's insured deposits at the end of its fiscal year and on various risk criteria which generate a risk rating based on a points system. The higher the points, the lower the premium rate. A revision to the Ontario Regulation 237/09 under the Act regarding the differential premium risk classification and rates was approved in December 2010. The new rates were effective for the insured institutions' financial year starting on or after January 1, 2011. The new rates (per $1,000 of insured deposits) are as follows:

Class	Points	New Rate 2011	Prior Rate 2010
1	85	$1.00	$0.90
2	70-84	$1.15	$1.00
3	55-69	$1.40	$1.15
4	40-54	$1.75	$1.40
5	<40	$3.00	$2.10

At December 31, 2011, DICO has deferred premium income of $4,178,000, which represents the balance of prorated premiums for the insured institutions whose fiscal year straddles DICO's fiscal year end.

5. Investments

	December 31, 2011			December 31, 2010		
	Amount ($ thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount ($ thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity
Treasury bills - Canada	$54,150	0.82%	89	$47,877	0.99%	90
Bankers' acceptances / Bank deposit notes	38,144	1.06%	23	20,513	1.90%	22
Total Current Investments	$92,294	0.85%	62	$68,390	1.07%	70
CUCO Co-op Class B investment shares (acquired from liquidated institutions)	$ 517	-	-	-	-	-
Total Other non-current Investment	$ 517	-	-	-	-	-

The Corporation's investments are classified as available-for-sale which is measured at fair value with unrealized gains and losses recorded in the statement of accumulated other comprehensive income until the investment is sold.

The current investments have terms to maturity of 90 days or greater on the date of purchase. As of December 31, 2011, these investments have a weighted average yield of 0.85% (2010: 1.07%). The Corporation has contracted with the OFA to manage its investment portfolio. The composition of DICO's investments reflects the nature of the Corporation's potential insurance obligations and is structured to comply with the requirements under both the Income Tax Act (Canada), the Act and Regulation 237/09.

In November 2011, in order to facilitate the orderly wind-down of some credit unions in liquidation, DICO purchased the CUCO Co-op Class B shares held by these credit unions at carrying value of $393 thousand.

Fair value hierarchy

The Corporation uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. As of December 31, 2011, the Corporation's financial instruments were valued as follows:

Available-for-sale financial assets:

($ thousands)	2011	2010
Level 1	$ 92,294	$ 68,390
Level 2	$ 517	-
Level 3	-	-
Total	$ 92,811	$ 68,390

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. Accrual for deposit insurance claims

The provision for losses includes specific provisions for known or likely losses from specific insured institutions not included in their financial statements and a general accrual for losses not identified with specific institutions. That portion of the provision for losses recorded in the year and in previous years which has not yet required payment by the Corporation is shown in liabilities on the statement of financial position as "Accrual for deposit insurance claims".

	2011	2010
	($ thousands)	
Accrual for deposit insurance claims, beginning of year	$ 5,275	$ 17,871
Add: Net (recovery) / provision for insurance losses for the year	(97)	1,506
(Decrease) / increase in deposit insurance advances recoverable	(5,299)	17,371
Net deposit insurance recoveries (advances)	5,407	(31,473)
Accrual for deposit insurance claims, end of year	$ 5,286	$ 5,275

Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation. The general accrual for losses included in "Accrual for deposit insurance claims" remained at $5,000,000 (2010 - $5,000,000) and is calculated in accordance with the methodology, as described in note 3(b).

7. Property, plant and equipment

($ thousands)	Furniture and Fixture	Office Equipment	Computer and Related Equipment	Software	Leasehold Improvement	Total
Cost or deemed cost						
Balance at January 1, 2010	$ 452	$ 72	$ 1,874	$ 1,253	$ 499	$ 4,150
Additions	34	-	78	262	-	374
Disposals	-	-	(33)	-	-	(33)
Balance at December 31, 2010	**486**	**72**	**1,919**	**1,515**	**499**	**4,491**
Balance at January 1, 2011	486	72	1,919	1,515	499	4,491
Additions	31	3	53	8	-	95
Disposals	(1)	-	(36)	-	-	(37)
Transferred to intangible asset	-	-	-	(804)	-	(804)
Balance at December 31, 2011	**$ 516**	**$ 75**	**$ 1,936**	**$ 719**	**$ 499**	**$ 3,745**
Depreciation						
Balance at January 1, 2010	$ 374	$ 65	$ 1,753	$ 599	$ 120	$ 2,911
Depreciation for the year	21	2	74	49	50	196
Disposals	-	-	(32)	-	-	(32)
Balance at December 31, 2010	**395**	**67**	**1,795**	**648**	**170**	**3,075**
Balance at January 1, 2011	395	67	1,795	648	170	3,075
Depreciation for the year	22	2	71	44	50	189
Disposals	(1)	-	(35)	-	-	(36)
Balance at December 31, 2011	**$ 416**	**$ 69**	**$ 1,831**	**$ 692**	**$ 220**	**$ 3,228**
Carrying amount						
At January 1, 2010	78	7	121	653	379	1,238
At December 31, 2010	91	5	124	867	329	1,416
At January 1, 2011	91	5	124	867	329	1,416
At December 31, 2011	100	6	105	27	279	517

Included in the carrying amount of software totalling $804,000 at December 31, 2010 was the work in progress of internally developed software. The total was transferred to intangible assets as of February 1, 2011.

8. Intangible assets

($ thousands)	Development Costs
Cost	
Balance at January 1, 2010	-
Acquisitions (WIP)- internally developed	-
Balance at December 31, 2010	**-**
Balance at January 1, 2011	-
Transferred from software work in progress	804
Acquisitions - internally developed	98
Balance at December 31, 2011	**902**
Amortization	
Balance at January 1, 2010	-
Amortization for the year	-
Balance at December 31, 2010	**-**
Balance at January 1, 2011	-
Amortization for the year	107
Balance at December 31, 2011	**107**
Carrying amounts	
At January 1, 2010	-
At December 31, 2010	**-**
At January 1, 2011	-
At December 31, 2011	**795**

The carrying amount of the intangible asset represents the new web-based software project developed internally. The new electronic filing system was successfully launched effective February 1, 2011.

9. Employee benefits

(i) Pension plan

The Corporation operates a defined contribution registered pension plan for all eligible employees. In addition DICO accrues benefits to a Supplemental Pension Plan and an Auxiliary Pension Plan (both non-registered). The Supplemental Plan provides the same benefit as the registered plan on that portion of an employee's income in excess of the registered plan limits. The Auxiliary Plan provides an additional defined contribution amount for the CEO on his base salary. The total pension expense for the Corporation charged to income in 2011 was $418,000 (2010 - $398,000). Total accrued pension plan benefits as at December 31, 2011 amounted to $1,185,000 (2010 - $1,032,000).

(ii) Future non-pension post-retirement benefits

The Corporation accounts for the current value of future non-pension post-retirement benefits. The accrued benefit liability as at December 31, 2011, as actuarially determined, is $1,849,000 (2010 - $1,740,000). The annual benefit cost, including current service cost, interest and amortization of gains and losses was $155,000 (2010 - $137,000). An updated actuarial valuation for the Corporation's plan was completed for the year ended December 31, 2011.

The assumptions used in the actuarial valuation of the future benefits obligations consisted of: interest rate of 4.5% (2010 - 5.75%), rate of compensation increase of 3.5% (2010 - 3.5%) and initial weighted average trend rate in health and dental costs of 5.75% (2010 - 6.2%), grading down to 4.5 % per annum by 2032. The Corporation measures its accrued benefit obligations as at December 31.

Reconciliation of the Defined Benefit Obligation ("DBO") *($ thousands)*	2011	2010
DBO at end of prior year	**$ 1,989**	$ 1,645
Current service cost	**36**	26
Interest cost	**114**	111
Actuarial loss	**561**	249
Benefit payments	**(45)**	(42)
DBO at end of year	**$ 2,655**	**$ 1,989**
Deficit at end of year	**($ 2,655)**	**($ 1,989)**
Unrecognized past service cost	-	-
Unrecognized net actuarial loss	**806**	249
Net liability recognized on statement of financial position at end of year	**($ 1,849)**	**($1,740)**

The Corporation currently uses the corridor approach for recognizing gains and losses. Starting in fiscal 2013, DICO will be required to transition to the other comprehensive income (OCI) approach. With the requirement to provide comparative information, all unrecognized balances will be reflected in retained earnings as at transition date of January 1, 2012. During fiscal 2012, DICO will continue to report using the corridor method for the recognition of gains and losses but will reflect future gains and losses in OCI and not the profit and loss statement starting in fiscal 2013.

The Corporation also implemented a human resources retention plan for key management personnel for the purpose of ensuring effective transition and succession planning. Total accrued retention benefits were $669,000 at December 31, 2011 (2010 - $434,000).

Summary of employees benefit liabilities:

($ thousands)	December 31, 2011	December 31, 2010
Employee pension benefits	$ 1,185	$ 1,032
Employee future non-pension post-retirement benefits	1,849	1,740
Retention benefits for key management personnel	669	434
Total	$ 3,703	$ 3,206

10. Operating leases

The non-cancellable annual operating lease payments for the Corporation are summarized as follows:

($ thousands)	2011	2010
Less than 1 year	-	22
Between 1 and 5 years	118	73
More than 5 years	188	188

Under the operating lease for its premises the Corporation is required to pay property taxes and common area maintenance costs which are currently approximately $322,000 per annum.

11. Income taxes

Income tax expense reported in the statement of income is as follows:

Recognition of effective tax rate

($ thousands)	2011	2010
Profit (loss) before income tax	$ 18,651	$ 13,060
Income tax using the combined statutory rate for 2011 of 28.25%	5,269	4,048
Income not included for tax purposes	(7,444)	(6,185)
Current year losses for which no deferred tax asset was recognized	1,925	1,649
Other, net	250	488
Provision (recovery)	$ -	$ -

Deferred tax assets and liabilities

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

($ thousands)	2011	2010
Deductible temporary differences	$ 3,030	$ 2,895
Tax benefit of loss carry-forwards	7,026	5,585
	$10,056	$ 8,480

The tax losses expire starting in 2014. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Corporation can utilize the benefits.

12. Related parties

Transactions with key management personnel

Directors and key management personnel compensation

During the year, the directors received an aggregate remuneration of $154,000 (2010 - $137,000). Total directors' expenses were $ 83,000 (2010 - $61,000). The remuneration for the Chair is a minimum of $2,000 per month, which includes a per diem rate of $500. The per diem rate for all other board members is $400 (2010 - $400) plus an annual retainer of $3,500.

Under the Public Sector Salary Disclosure Act 1996, DICO publishes the name, title, salary and taxable benefits for all employees who earned $100,000 or more during 2011. The information is available on the Ministry of Finance website at **http://www.fin.gov.on.ca/en/publications/salarydisclosure/2012/.**

In addition to their salaries, the Corporation provides a human resources retention plan for key management personnel for the purpose of ensuring effective transition and succession planning. The terms of the plans vary with individuals and the acceptance is voluntary. Other benefits include DICO's contributions to the pension plan and non-pension future employee benefits which all employees of DICO are entitled to participate in when they meet the qualification criteria.

Key management personnel compensation included:

($ thousands)	2011	2010
Short-term benefits	$ 61	$ 61
Post-employment benefits	155	118
Other long-term benefits	236	225
Total	$ 452	$ 404

13. Contingency

When acting in the capacity of administrator or liquidator of a credit union, the Corporation manages various legal actions in the normal course of business. One of these legal actions led to a claim against the Corporation which remained outstanding at the end of 2011. This claim was dismissed by the Ontario Superior Court of Justice based upon DICO's Statutory Immunity; however, the ruling was subsequently appealed. The appeal is expected to be heard in 2012. No provision has been made for this matter in these financial statements.

14. Risks arising from financial instruments

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investment securities. The Corporation minimizes its credit risk by investing in high quality financial instruments and by limiting the amount invested in any one counterparty. All investments in the DIRF are limited to those permitted by legislation, by the terms of the line of credit agreement with the OFA and to any limits made by the Corporation's investment policy. The Corporation establishes an allowance for doubtful accounts that represents its estimate of deposit insurance losses in insured institutions. The main components of this allowance are specific provisions that relate to individually significant exposures, and a general provision established in respect of losses that have been incurred but not yet identified. The general provision is determined based on historical data of payment statistics for similar financial assets.

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations to depositors as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically, the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations, if any; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Corporation maintains a line of credit approved by the Minister of Finance of $250 million that can be drawn down to provide liquidity to DICO as deposit insurer of insured institutions in the Province of Ontario. The terms of the line of credit require DICO to liquidate its DIRF investments before it can borrow above $20 million. The facility is effective from January 1, 2009 to December 31, 2013. Interest would be payable at an annual rate equal to the province's cost of funds for borrowings for a three-month term, plus an additional 0.40 percent, as determined by the OFA at the commencement of each three month period.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect income or the value of the holdings of financial instruments. The Corporation does not have any dealings with foreign currency. DICO's primary investment objective is to preserve capital and provide necessary liquidity to pay claims and ongoing operating expenses.

(d) Fair value sensitivity analysis for fixed rate instruments

The Corporation accounts for its fixed rate financial assets as available-for-sale. Therefore, a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments. A change of 100 basis points in interest rates would have increased or decreased equity by $793,000 (2010: $574,000).

(e) Capital management

The Board's policy is to enhance the financial soundness of the credit union and caisse populaire sector. As of December 31, 2011, the Corporation has a DIRF of $113 million, which represents 51 basis points of the sector's insured deposits. DICO's minimum target range for the DIRF is between 56 and 68 basis points of total insured deposits. The Corporation is committed to building the fund to the target range by recovering on past insurance losses and, if necessary, making recommendations to the government to increase deposit insurance premiums.

15. Fair value disclosure

The fair value of financial assets and liabilities, which include cash and cash equivalents, investments, premiums receivable, payables and accruals, and employee benefits, approximate their carrying amounts. The fair value of accrual for deposit insurance losses has not been determined because it is not practicable to determine fair value with sufficient reliability.

16. Explanation of transition to IFRS

As stated in note 2(a), these are the Corporation's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (date of transition).

In preparing its opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian Generally Accepted Accounting Principles ("CGAAP"). An explanation of how the transition from previous CGAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables:

Explanation of transition to IFRS

Reconciliation of Equity

		January 1, 2010		January 1, 2010	December 31, 2010		December 31, 2010
($ thousands)	Note	Previous CGAAP -Consolidated	Effect of transition to IFRS	IFRS	Previous CGAAP -Consolidated	Effect of transition to IFRS	IFRS
ASSETS **Current assets**							
Cash and equivalents	*a*	$ 8,986	$ (7,673)	**$ 1,313**	$ 13,175	$ (11,308)	**$ 1,867**
Investments		85,885	-	**85,885**	68,390	-	**68,390**
Loans (net)	*a*	18,231	(18,231)	-	25,612	(25,612)	-
Premiums receivable		3,714	-	**3,714**	3,940	-	**3,940**
Prepaid expenses and	*a*	203	(74)		1,679	(1,414)	
other receivables	*c*		30	**159**		53	**318**
Total current assets		117,019	(25,948)	**91,071**	112,796	(38,281)	**74,515**
Non-current assets							
Land and buildings	*a*	-	-	-	1,249	(1,249)	-
Deposit insurance advances recoverable	*a*	517	14,744	**15,261**	4,082	28,550	**32,632**
Property, plant and equipment (net)	*a*	1,617	(379)	**1,238**	1,954	(538)	**1,416**
Total non-current assets		2,134	14,365	**16,499**	7,285	26,763	**34,048**
Total assets		**$ 119,153**	**$ (11,583)**	**$ 107,570**	**$ 120,081**	**$ (11,518)**	**$ 108,563**
LIABILITIES **Current liabilities**							
Payables and accruals	*a, d*	$ 4,127	$ 165	**$ 693**	$ 5,063	$ (573)	**$ 646**
	d, e		(3,599)			181	
	e					(4,025)	
Member shares and deposits of institutions in liquidation	*a*	4,176	(4,176)	-	11,436	(11,436)	-
Deferred premium income		3,776	-	**3,776**	3,893	-	**3,893**
Total current liabilities		12,079	(7,610)	**4,469**	20,392	(15,853)	**4,539**
Non-current liabilities							
Payables and accruals	*e*	-	948	**948**		941	**941**
Employee benefits	*b*	-	122	**2,773**		122	**3,206**
	e		2,651			3,084	
Accrual for deposit insurance claims	*a*	28,773	(10,902)	**17,871**	13,771	(8,496)	**5,275**
Total non-current liabilities		28,773	(7,181)	**21,592**	13,771	(4,349)	**9,422**
Total Liabilities		$ 40,852	$ (14,791)	**$ 26,061**	$ 34,163	$ (20,202)	**$ 13,961**
EQUITY							
Accumulated other comprehensive income		$ 16	$ -	**$ 16**	$ 49	$ -	**$ 49**
Deposit Insurance Reserve Fund	*a, b, c, d*	78,285	3,208	**81,493**	85,869	8,684	**94,553**
Total Equity		$ 78,301	$ 3,208	**$ 81,509**	$ 85,918	$ 8,684	**$ 94,602**
Total Liabilities and Equity		**$ 119,153**	**$ (11,583)**	**$ 107,570**	**$ 120,081**	**$ (11,518)**	**$ 108,563**

Reconciliation of Statement of Operations and Changes in the Deposit Insurance Reserve Fund
For the year ended December 31, 2010

($ thousands)	Note	Previous CGAAP -Consolidated	Effect of transition to IFRS	IFRS
Income				
Premium income		$ 21,196	$ -	**$ 21,196**
Other income	f	(2,852)	(2,336)	**516**
		24,048	(2,336)	**21,712**
Expenses				
Salaries and benefits	f	5,111	(8)	**5,103**
Operating expenses		2,434	-	**2,434**
Recovery of operating expenses	f	(126)	(265)	**(391)**
		7,419	(273)	**7,146**
Operating and interest expenses-institutions in liquidation	f	11,004	(11,004)	**-**
		18,423	(11,277)	**7,146**
Excess of income over operating expenses		5,625	8,941	**14,566**
Net increase (decrease) Provision for losses	f	(1,959)	3,465	**1,506**
Excess of income over total expenses	f	7,584	5,476	**13,060**
Deposit Insurance Reserve Fund, beginning of year		78,285	3,208	**81,493**
Deposit Insurance Reserve Fund, end of year		$ 85,869	$ 8,684	**$ 94,553**

Reconciliation of Statement of Comprehensive Income
For the year ended December 31, 2010

($ thousands)	Note	Previous CGAAP -Consolidated	Effect of transition to IFRS	IFRS
Excess of income over expenses	f	$ 7,584	$ 5,476	**$ 13,060**
Other comprehensive income:				
Unrealized gains on available-for-sale investment		33	-	**33**
Other comprehensive income		33	-	**33**
Comprehensive income		**$ 7,617**	**$ 5,476**	**$ 13,093**
Statement of Accumulated other comprehensive Income For the year ended December 31, 2010 *($ thousands)*				
Accumulated other comprehensive income, beginning of year		$ 16	$ -	**$ 16**
Sale of available-for-sale investment from opening balance of accumulated other comprehensive income		(16)	-	**(16)**
Unrealized gains on available-for-sale investment		49	-	**49**
Net change during the year		33	-	**33**
Accumulated other comprehensive income, end of year		**$ 49**	**$ -**	**$ 49**

Explanation of transition to IFRS

Notes to the reconciliations

a) De-consolidation of Variable Interest Entities ("VIEs")

DICO previously consolidated the financial statements of institutions in liquidation which are qualified as VIEs under CGAAP. Under IFRS, it was determined that DICO does not accrue ownership benefits acting as supervisor, administrator and liquidator of institutions in financial difficulties. Therefore, institutions in liquidations are no longer consolidated.

The impact arising from the change is summarized as follows:

Statement of Financial Position	January 1, 2010	December 31, 2010
Decrease in cash	$ (7,673,000)	$(11,308,000)
Decrease in loans	(18,231,000)	(25,612,000)
Decrease in interest and other receivables	(74,000)	(1,414,000)
Decrease in land and buildings	-	(1,249,000)
Increase in deposit insurance advances	14,744,000	28,550,000
Decrease in capital assets	(379,000)	(538,000)
Decrease in payables and accruals	-	573,000
Decrease in member shares and deposits	4,176,000	11,436,000
Decrease in accrual for deposit insurance losses	10,902,000	8,496,000
Increase in DIRF	**$ 3,465,000**	**$ 8,934,000**

b) Employee benefits - Post-employment future non-pension benefit plan (for medical, dental and life insurance benefits) (IAS 19.44)

Under IFRS, DICO's accounting policy is to recognize the actuarial gains and losses using the 10% corridor method (same as current CGAAP) where gains and losses that fall outside of the 10% corridor were amortized over the average expected remaining service life of the active group (i.e., 11 years). The benefit expense is recognized systematically over time in profit or loss. At the date of transition (January 1, 2010), all previously unrecognized cumulative actuarial gains and losses had to be recognized in retained earnings (DIRF).

As calculated by Mercer (Canada), as at December 31, 2009, there was an unrecognized actuarial loss of $122,000. As a result, a net obligation of $122,000 would need to be recorded as a transitional adjustment to DIRF at January 1, 2010 to adjust the accrued future benefit liability of $1,523,000 to a total of $1,645,000 under IFRS.

The 2010 benefit expense of $137,000 is the same under the old Canadian Institute of Chartered Accountants' Handbook Section 3461 basis and under the new IFRS basis. Therefore, no adjustment is necessary for the year 2010.

Impact summary:

Statement of Financial Position	January 1, 2010	December 31, 2010
Increase in accrued future non-pension benefits	$(122,000)	-
Increase in DIRF	**$(122,000)**	**-**

c) Non-vested pension benefits under the defined contribution plan

DICO's defined contribution pension plan provides pension benefits to all regular and non-contractual employees. Pension cost is determined by a fixed percentage (7%) of the employees' income plus the matching of the employees' contributions to a maximum of 4%.

DICO's current practice complies with the IFRS. However, for employees who have not met the vesting period of 2 years*, a prepaid asset will need to be recognized, until the vesting period is reached, or eliminated as a result of Ontario's pension reforms, whichever is earlier.

Pension contributions for unvested employees amounted to $30,000 as at December 31, 2009 and increased to $53,000 at the end of December 2010.

Impact summary:

Statement of Financial Position	January 1, 2010	December 31, 2010
Increase in current assets-Prepaid exp- non-vested pension	$30,000	$23,000
Increase in DIRF	**$30,000**	**$23,000**

*The Pension Benefits Amendment Act (Bill 236) provides immediate vesting and locking-in for plan members. It has received Royal Assent on May 18, 2010 but the effective date for the implementation is unknown at this time.

d) Short-term benefits (IAS 19.10)

A liability is recognized for the cost of carryover vacation entitlements (limited to corporate policy allowed) at the end of each reporting period. CGAAP does not provide guidance on measuring liability for compensated absences and DICO did not accrue for such liability in the past.

Accrual of vested accumulated unused vacation entitlements as of December 31, 2009 and December 31, 2010 were $165,000 and $181,000, respectively.

Impact summary:

Statement of Financial Position	January 1, 2010	December 31, 2010
Increase in accrued vacation entitlements	$(165,000)	$(16,000)
Decrease in DIRF	**$(165,000)**	**$(16,000)**

e) Reclassification under IFRS

Certain comparative figures have been reclassified in order to conform with the IFRS's classification in the statement of financial position, i.e., to present current and non-current assets, and current and non-current liabilities.

Statement of Financial Position	January 1, 2010	December 31, 2010
Current liabilities – payables and accruals	$(3,599,000)	$(4,025,000)
Non-current liabilities-payables and accruals	948,000	941,000
Non-current liabilities-Employee benefits	2,651,000	3,084,000
Decrease in DIRF	**$ -**	**$ -**

f) Statement of Operations and Changes in the Deposit Insurance Reserve Fund

The impacts to the Statement of Operations for the year ended December 31, 2010 are as follows:

	VIEs de-consolidation	Others	Total
Other income	$ (2,336,000)	$ -	**$ (2,336,000)**
Less:			
Salaries and benefits (Non-vested pension contributions and other short-term benefits)	-	(8,000)	**(8,000)**
Recovery of operation expenses (Liquidation and loan collection fees)	(265,000)	-	**(265,000)**
Operating and interest expense - institutions in liquidation	(11,004,000)	-	**(11,004,000)**
Provision for losses	3,465,000		**3,465,000**
Sub-total	(7,804,000)	(8,000)	**(7,812,000)**
Net change	$ 5,468,000	$ (8,000)	**$ 5,476,000**

Deposit Insurance Corporation of Ontario's Insured Institutions

at December 31, 2011

Credit Unions (119)

Adjala Credit Union Limited
Airline Financial Credit Union Limited
All Trans Financial Services Credit Union Limited
Alterna Savings and Credit Union Limited
APPLE Community Credit Union Limited
Arnstein Community Credit Union Limited
Auto Workers Community Credit Union Limited
Bay Credit Union Limited
Bayshore Credit Union Ltd.
Boomerang Credit Union Limited
Buduchnist Credit Union Limited
C.N. (London) Credit Union Limited
Canadian Transportation Employees' Credit Union Ltd.
CCB Employees' Credit Union Limited
City Savings & Credit Union Limited
Communication Technologies Credit Union Limited
Community First Credit Union Limited
Copperfin Credit Union Limited
Creative Arts Savings & Credit Union Limited
DUCA Financial Services Credit Union Ltd.
Dundalk District Credit Union Limited
Dunnville and District Credit Union Limited
Durham Educational Employees' Credit Union Limited
Education Credit Union Limited
Energy Credit Union Limited (The)
Equity Credit Union Inc.
Espanola & District Credit Union Limited
Estonian (Toronto) Credit Union Limited
ETCU Financial Credit Union Limited
Federal Employees (Kingston) Credit Union Limited
Finnish Credit Union Limited
Fire Department Employees Credit Union Limited (The)
FirstOntario Credit Union Limited
Fort Erie Community Credit Union Limited
Fort York Community Credit Union Limited
Frontline Financial Credit Union Limited
G.S.W. (Fergus) Credit Union Limited
Ganaraska Credit Union Ltd.
Goderich Community Credit Union Limited
Golden Horseshoe Credit Union Limited
Grey Bruce Health Services Credit Union Limited
Hald - Nor Community Credit Union Limited
Hamilton Municipal Employees' Credit Union Limited
Hamilton Teachers' Credit Union Limited
Health Care Credit Union Limited
Heritage Savings & Credit Union Inc.
Hir-Walk Employees' (Windsor) Credit Union Limited
Italian Canadian Savings & Credit Union Limited
Kawartha Credit Union Limited
Kellogg Employees Credit Union Limited
Kingston Community Credit Union Limited
Korean (Toronto) Credit Union Limited
Korean Catholic Church Credit Union Limited
Krek Slovenian Credit Union Ltd.
L.I.U.N.A. Local 183 Credit Union Limited
Lambton Financial Credit Union Limited
Latvian Credit Union Limited
Libro Credit Union Limited
London Fire Fighters' Credit Union Limited
Luminus Financial Services & Credit Union Limited
McMaster Savings and Credit Union Limited
Member Savings Credit Union Limited
MemberOne Credit Union Limited
Mennonite Savings and Credit Union (Ontario) Limited
Meridian Credit Union Limited
Miracle Credit Union Ltd.
Momentum Credit Union Limited
Motor City Community Credit Union Limited
Municipal Employees (Chatham) Credit Union Limited
Northern Credit Union Limited
Northern Lights Credit Union Limited
Northridge Savings & Credit Union Limited
ONR Employees' (North Bay) Credit Union Limited
Ontario Civil Service Credit Union Limited
Ontario Educational Credit Union Limited
Ontario Provincial Police Association Credit Union Limited
Oshawa Community Credit Union Limited
Ottawa Police Credit Union Limited
Ottawa Women's Credit Union Limited
Pace Savings & Credit Union Limited
Parama Lithuanian Credit Union Limited
Pedeco (Brockville) Credit Union Limited
PenFinancial Credit Union Limited
Peoples Credit Union Limited
Peterborough Community Credit Union Limited
Police Credit Union Limited (The)
Prosperity One Credit Union Limited
Provincial Alliance Credit Union Limited
QuintEssential Credit Union Limited
R.B.W. Employees' (Owen Sound) Credit Union Limited
Resurrection Credit Union Limited
Rochdale Credit Union Limited
Saugeen Community Credit Union Limited
Slovenia Parishes (Toronto) Credit Union Limited
Smiths Falls Community Credit Union Limited
Southlake Regional Health Centre Employees' Credit Union Limited
Southwest Regional Credit Union Ltd.
St. Stanislaus-St. Casimir's Polish Parishes Credit Union Limited
State Farm (Toronto) Credit Union Limited
Sudbury Credit Union Limited
Superior Credit Union Limited
Sydenham Community Credit Union Limited
Taiwanese - Canadian Toronto Credit Union Limited
Talka Lithuanian Credit Union Limited
Thamesville Community Credit Union Limited
Thorold Community Credit Union Limited
Toronto Catholic School Board Employees Credit Union Limited
Toronto Municipal Employees' Credit Union Limited
Ukrainian Credit Union Limited
Unigasco Community Credit Union Limited
United Communities Credit Union Limited
United Employees Credit Union Limited
United Ukrainian Credit Union Limited
Unity Savings and Credit Union Limited
Utilities Employees' (Windsor) Credit Union Limited
Victory Community Credit Union Limited
Windsor Family Credit Union Limited
Your Credit Union Limited
Your Neighbourhood Credit Union Limited

Caisses Populaires (33)

Caisse populaire Azilda Inc.
Caisse populaire Coniston Inc.
Caisse populaire d'Alban Limitée
Caisse populaire d'Alfred Limitée
Caisse populaire de Bonfield Limitée
Caisse populaire de Cochrane Limitée
Caisse populaire de Cornwall Inc.
Caisse populaire de Field Limitée (La)
Caisse populaire de Hawkesbury Limitée
Caisse populaire de Hearst Limitée
Caisse populaire de Kapuskasing Limitée
Caisse populaire de la Vallée
Caisse populaire de Mattawa Limitée
Caisse populaire de Mattice Limitée
Caisse populaire de New Liskeard Limitée (La)
Caisse populaire de Noëlville Limitée
Caisse populaire de North Bay Limitée
Caisse populaire de Timmins Limitée (La)
Caisse populaire de Verner Limitée
Caisse populaire d'Earlton Limitée (La)
Caisse populaire des Voyageurs Inc.
Caisse populaire d'Orléans Inc.
Caisse populaire Nouvel-Horizon Inc.
Caisse Populaire Pointe-aux-Roches-Técumseh Inc.
Caisse populaire Rideau d'Ottawa Inc.
Caisse Populaire St. Charles Limitée
Caisse populaire St-Jacques de Hanmer Inc.
Caisse populaire Sturgeon Falls Limitée
Caisse populaire Trillium Inc.
Caisse populaire Val Caron Limitée
Caisse populaire Vermillon
Caisse populaire Vision Inc.
Caisse populaire Welland Limitée

Leagues

L'Alliance des caisses populaires de l'Ontario Inc.
Fédération des caisses populaires de l'Ontario Inc.(La)